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The local governments in North Sulawesi have continued to create levies, and have also tried to attract investors to the region, by speeding up the process of obtaining permits and reducing bureaucratic red tape. Local government has also set out to improve infrastructure to support investment, primarily in the area of transport (focusing on roads and seaports) and communications as well as providing land for investors. It is generally accepted that the local governments of North Sulawesi face some real dilemmas, which have been extremely difficult to overcome. On the one hand, it seems that local government needs to increase local revenue through the creation of various levies and taxes, as well as responding to the demands of local businesses for protection. On the other, it is clear that there is a need for local government to develop various policies to attract investors. There is considerable concern that if all of this is carried out simultaneously, the government's goal of attracting investors will not be reached, or even more worrying, that those investors who are already in the region will consider relocating elsewhere.

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*Field Report*



# Regional Autonomy and the Business Climate: North Sulawesi and Gorontalo

The SMERU Research Institute  
in association with The Partnership  
for Economic Growth (PEG) and  
The United States Agency for In-  
ternational Development (USAID)

Jakarta,  
September 2001

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For further information, please contact SMERU, Phone: 62-21-336336;  
Fax: 62-21-330850; E-mail: [smeru@smeru.or.id](mailto:smeru@smeru.or.id); Web: [www.smeru.or.id](http://www.smeru.or.id)

## **Research Team:**

**Syaikhul Usman**

**Ilyas Saad**

**Nina Toyamah**

**M. Sulton Mawardi**

**Vita Febriany**

**Pamadi Wibowo**

## SUMMARY

Past experience indicates that many market regulations only benefit the economic interests of certain groups. In addition, both the central and regional governments have previously put in place various taxes and levies which have resulted in a high cost economy. However, the central government has taken several important steps towards deregulation with the implementation of Law No. 18, 1997 and the Letter of Intent to the IMF issued in January 1998. Since January 2000, Indonesia has also officially begun to implement a policy of decentralization and regional autonomy. It is assured that the implementation of these policies will have an effect on the business climate in the regions because the local governments in the regions have tended to ignore previous efforts in the deregulation process. As part of a series of studies on the implementation process and the emerging impact of decentralization policies and regional autonomy on the business climate in the regions SMERU has recently focused on the provinces of North Sulawesi (*Sulut*), Gorontalo and three sample *kabupaten* within these provinces.

During the first five months of the implementation of regional autonomy, the provincial and *kabupaten* governments in North Sulawesi have made various adjustments to the structure of government administration and their civil service regulations. The SMERU team observed that the local governments have had to face several problems in the process of making these adjustments. These include, the loss of provincial government authority to the *kabupaten* and *kota* governments, as well as the difficulties of effectively and efficiently reorganizing the organizational structure of the regions. In addition, local government offices have been instructed to concentrate on contributing to local government revenue without concerning themselves with the quality or quantity of public services. Furthermore, in the formulation of policies, the general public and various community groups have not been able to participate or express their opinions.

At present, the provincial and *kabupaten* governments are preoccupied with efforts to increase local revenue, reasoning that they are strengthening their financial basis and increasing the general allocation of funds, which they believe, is still too small. They are still planning various local regulations to introduce new taxes and levies, which will create new sources of revenue as well as increasing the level of existing tariffs. A number of local regulations have already been ratified and deemed effective, and several new regulations will come into effect in 2002. There is also still much debate within local government and within the local assemblies about the formulation of various pieces of draft legislation on these issues.

Meanwhile, non-tariff-based regulations or those regulating goods and services are yet to emerge. The exceptions to this are the two decrees devised by the Governor of North Sulawesi. The first of these focuses on pharmacy regulations, limiting the opportunities for business people from outside North Sulawesi who wish to work in the region. The second decree involves the formation of a team to investigate the mechanism to regulate the price of coconut and copra and to attempt to establish a more genuine price for farmers and producers. Aside from this, local business people have made several demands on local government to protect them against competition from entrepreneurs from outside the region.

Several groups within the community have criticized the methods that local government has used in the formation of various local regulations in North Sulawesi, arguing that they have had extremely limited involvement in the discussion process. Even when these groups had

been invited to the discussions, they received only a limited explanation of the details of those levies and taxes, which they will be forced to pay. In fact, there is no fundamental objection within the community to paying such levies and taxes, provided that local government offices improve the quality of the services that are provided.

The local governments in North Sulawesi have continued to create levies, and have also tried to attract investors to the region, by speeding up the process of obtaining permits and reducing bureaucratic red tape. Local government has also set out to improve infrastructure to support investment, primarily in the area of transport (focusing on roads and seaports) and communications as well as providing land for investors.

In conclusion, it is generally accepted that the local governments of North Sulawesi face some real dilemmas, which have been extremely difficult to overcome. On the one hand, it seems that local government needs to increase local revenue through the creation of various levies and taxes, as well as responding to the demands of local businesses for protection. On the other, it is clear that there is a need for local government to develop various policies to attract investors. There is considerable concern that if all of this is carried out simultaneously, the government's goal of attracting investors will not be reached, or even more worrying, that those investors who are already in the region will consider relocating elsewhere.

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## LIST OF ABBREVIATIONS

ABT	Ground water
APBD	Regional Government Budget
APBN	Central Government Budget
Apeksu	Association of North Sulawesi Coconut Producers
APT	Surface water
Asmindo	Association of Indonesian Furniture Makers
ASSR	<i>Agriculture Sector Strategy Review</i>
Bangdes	Directorate General for Rural Development
Bappeda	Regional Planning Board
BBN-KB	Tax on change of ownership of motor vehicle
Bolmong	Bolaang Mongondow
BPS	Statistics Indonesia
BPPC	Clove Marketing Boards
BUMN	State-owned Enterprises
CPIS	Centre for Policy and Implementation Studies
DAU	General Allocation of Funds
Depdagri	Departement of Internal Affairs
Dirjen	Director General
Dispenda	Office of Regional Revenues
Ditjen	Directorate General
DLLAJ	Regional Transportation Office
DPRD	Regional House of Representatives
Gapensi	Association of Indonesian Construction Consultants
HO	Hinder Ordonantie/Disturbance/Noise Levy
IHH	Retribution for Forest Products
IMB	Building Construction Permit
IMF	International Monetary Fund
Inpres	Presidential Instruction
Kadinda	Kamar Dagang dan Industri Daerah
Keppres	Presidential Decree
KK	Family Card
KKN	Corruption, Collusion, and Nepotism
KTP	Identity Card
KUD	Village Cooperatives
LoI	Letter of Intent
LSM	Non-Governmental Organization
Mendagri	Minister of Internal Affairs
MPR	People's Consultative Assembly
NTB	West Nusa Tenggara
NNT	East Nusa Tenggara
Otda	Regional Autonomy
PAD	Regional Revenues
PBB	Land and Building Tax
PBB-KB	Motor Vehicle Fuel Tax
PDAM	State-owned Drinking Water Company
PDRB	Regional Gross Domestic Product



Pemda	Regional Government
Perda	Regional Legislation
Perindag	Industry and Trade
Persepsi	Monitoring of Economic Structure and Deregulation Program Reforms
PKB	Motor Vehicle Tax
PP	Government Regulation
PPh	Income Tax
PPN	Value-added Tax
PT	Public Limited Company
Pungli	Illegal Levies
PUOD	Directorate General for General Administration and Regional Autonomy
Puskud	Centre of Village Cooperatives
RAPBD	Draft Regional Government Budget
Raperda	Draft Regional Legislation
SDA	Natural Resources
SDM	Human Resources
SetJen	Secretariat General
Setwilda	Regional Secretary
SIM	Driver license
SIUI	Industrial Businesses Permit
SIUP	Permit for Trade Enterprises
SKAP-C	Official Statement for Inter-island Trading of Cloves
SKAP-P	Official Statement for Inter-island Trading of Nutmeg
SK	Decision Letter
SPKT	Third Party Contribution
STNK	Motor Vehicle Licence
Sulut	North Sulawesi
TA	Fiscal Year
t.a.d	Data not available
TPI	Fish Auction Site
UU	Laws

# Regional Autonomy and the Business Climate: North Sulawesi and Gorontalo<sup>1</sup>

## I. INTRODUCTION

### 1. Background

To date, the system of centralized government has been viewed as an obstacle to regional development and has consequently encouraged the regions to struggle for real autonomy. One clear way that local governments (*pemerintah daerah, pemda*) can achieve this autonomy is through the management of local revenues (*Pendapatan Asli Daerah, PAD*). As a result, by 1996, the local government had issued nearly 200 local regulations (*peraturan daerah, perda*) on the taxes, levies and other fees (CPIS, 1996). In addition, local governments also released various policies concerning business activities, especially policies regulating markets and trade. These policies included the allocation of zones to control tea trade in West Java, a citrus fruit trading monopoly in West Kalimantan, the marketing of local produce through Village Co-operatives (KUD) in East Nusa Tenggara, and a prohibition on the marketing or transportation of raw cashew nuts from South Sulawesi. Similar policies were also put in place by the central government including the establishment of a cloves monopoly by the Cloves Marketing Board (BPPC) and inter-island livestock trade quotas. The stated aim of these policies was the protection of small farmers and producers.

In practice, however, many of these local regulations and policies were intended to raise local revenue and protect the interests of certain groups. This consequently created a 'high cost economy' that distorted the business climate, weakened competitiveness, and impeded regional economic development. Furthermore, these policies then attracted extensive criticism from both national and international quarters. As a result, the central government attempted to rectify this situation by issuing the tax reform Law No. 18, 1997, which limited the kinds of taxes and levies that may be collected in the regions. As a result of the monetary crisis that occurred in mid 1997, the Government of Indonesia signed a Letter of Intent (LOI) with the IMF on the 15 January 1998. This promoted a program of deregulation through the correction of all central and regional government policies that had previously distorted the economy, including the abolition of inter-regional trade restrictions.

The economic crisis that followed the monetary crisis, forced the central and regional governments to make every effort to implement both of the above measures. Various levies were abolished and those policies that had a negative impact on the market were abandoned. Both of these changes to government policy had a positive effect on the business climate, as well as improving farmers' incomes (SMERU, December 1999). On the other hand, local governments subsequently viewed these policy changes as reducing their available sources of income. Consequently, many local governments have demanded that Law No. 18, 1997 be amended by the central government. These demands have been further strengthened by the existence of new policies on decentralization and regional autonomy as outlined in Law No.22, 1999 on Regional Government and Law No. 25, 1999 on the Fiscal Balance between

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<sup>1</sup> This survey and report were conducted by The SMERU Research Institute with support from The Partnership for Economic Growth (PEG). PEG is a USAID-funded Project with the Government of Indonesia. The views expressed in this report are those of the authors and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

the Central Government and the Regions. Subsequently, the central government accepted the complaints of the regions by approving Law No. 34, 2000 which amends Law No. 18, 1997. This new law provides wider opportunities for the regions to issue local regulations concerning taxes and levies, while (in theory) still setting certain limits through the application of various strict conditions.

The policy of decentralization and regional autonomy is intended to bring the government closer to the people so that government services can be delivered more effectively and efficiently. Consequently, local governments must prove that they are capable of carrying out these policies in such a manner that brings significant benefits to the community. To achieve this, decentralization policies and regional autonomy should not only be in the form of delegated authority from the center to the regions. The local governments must also eventually hand over some of their newly gained authority to the local community. At present, the principle that is supposed to underlie decentralization policies and regional autonomy is the development of a participative and democratic community. However, in practice, this can only be achieved by governments that are open, responsible and fair. In other words, it is impossible for these policies to be implemented by local governments adhering to centralized and authoritarian practices.

As far as economic activities are concerned, local governments need to make every effort to promote their region to attract investment and stimulate trade. However, there is no guarantee that local governments will make such an effort, since during the New Order period of centralized government, local government officials tended to follow central government directives with little opportunity to exercise their own authority. These practices have trapped local government officials in a system of routine, practical and pragmatic activities, where there is little room for regional government initiative and innovation. Consequently, now that the regions have achieved a higher level of authority, there is concern that they will simply imitate the models and practices established by the central government<sup>2</sup>. Many observers are concerned that local governments will become absorbed by the effort to increase local revenue through various taxes and levies, eventually resulting in a high cost economy.

There is also concern about the possibility of local governments releasing policies that discriminate against individuals from outside the region for the sake of the local community and its inhabitants (the *putra daerah* issue). This situation is a cause of real concern because it threatens national unity both politically and economically, for example the policy of free trade between regions and Indonesia's existence as a single unified market entity.<sup>3</sup>

As part of our research into the initial phase of the implementation of decentralization and regional autonomy under Law No. 22, 1999 and Law No. 25, 1999, the SMERU team has carried out several field studies to specifically obtain information on the following issues:

1. Local government policy concerning the implementation of wider local authority, especially those policies related to local taxes, levies and other charges (both formal and informal) and other policies relevant to the business climate, such as licensing and the

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<sup>2</sup> This is evident in a number of areas: the way that structure of local governments are being organized, the development of local sources of revenue, and the allocation of the funds that are received from the central government, as well as the decision-making processes involved in the creation of public policies.

<sup>3</sup> The notion of Indonesia as a "single unified market" is one of the binding elements of the unitary state of the Republic of Indonesia.

regulation of local trade and markets. Furthermore, the extent to which the process of formulating formal regulations takes into account the views and interests of various community groups.

2. The views of local government on the size of the General Allocation of Funds (*Dana Alokasi Umum*, DAU) from the central government, and their strategies to increase local income through available sources of local revenue (PAD) such as local taxes and levies, along with the policies and practicalities relating to the allocation of funds.
3. The views and opinions of various economic actors and other interest groups within society on the impact of local government policy on the business climate together with its implications for trade and investment, especially on the movement of goods and services.

This report is based on the results of SMERU fieldwork in the Province of North Sulawesi and the Province of Gorontalo carried out between the 8 - 27 May, 2001. The SMERU team visited two *kabupaten* in North Sulawesi, Minahasa and Bolaang Mongondow (Bolmong). The Province of Gorontalo, which has only recently become a province, was also included because Kabupaten Gorontalo had previously been chosen as part of the sample within the Province of North Sulawesi. The Province of North Sulawesi is one of nine provinces investigated by SMERU within the overall framework of this study. A primary consideration for selecting the nine provinces was their geographic representation, with areas from Eastern Indonesia, Java and Western Indonesia.

Information was obtained from officials within the governor's office and the office of the Bupati, including the Governor, the Bupati and their staff, the regional secretaries and their staff, the heads of various bureaus and sections within the regional secretariat (legal affairs, organization, government administration, finance and economic affairs), and the regional planning and development board (*Bappeda*). In addition, the team also interviewed the leaders of various government offices at the province and *kabupaten* level, including the industry and trade office (Dinas Perindustrian dan Perdagangan), the plantations office (Dinas Perkebunan), the animal husbandry office (Dinas Peternakan), the fisheries office (Dinas Perikanan), the forestry affairs office (Dinas Kehutanan), the transportation and communications office (Dinas Perhubungan) and the local treasury (Dinas Pendapatan Daerah). For additional information, the team also consulted the head of the local people's representative assembly (DPRD) and the Statistics Indonesia office (Kantor BPS). Also interviewed were officials of the local chamber of commerce and industry (Kadinda), the North Sulawesi coconut farmers' association (Apeksu), the Indonesian furniture makers' association (Asmindo), businessmen and entrepreneurs from various sectors, traders at various levels, transport drivers, farmers and fishermen, editors and journalists of local newspapers, NGO leaders, and the teaching staff of local institutes of higher education.

## **2. Regional overview**

North Sulawesi is strategically located with the Republic of the Philippines and the Pacific Ocean to the North, providing the area with a unique advantage when compared with other provinces in Indonesia. Within the context of Asia Pacific trade, this location provides North Sulawesi with potential economic opportunities, opening up significant channels to access world trade centers such as Japan, Korea, Taiwan, and the west coast of America. To date, however, these opportunities have not been seriously explored. Moreover, the opportunity to participate in the sub-regional economic cooperation zone, the Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area (BIMP EAGA), has also been ignored, despite the role

played by the Governor of North Sulawesi and the Mayor of Davao City in making the establishment of this organization possible (see *Kompas*, 12 July 1999).

During the era of regional autonomy, the local government of North Sulawesi has become aware that the above opportunities have significant potential for the region that must quickly be exploited. Improvements in communications and transport have already taken place, especially at the Sam Ratulangi Airport. In addition, the development of facilities at the Port of Bitung to transform it into an international seaport has become a development priority of the province. It is hoped that the development of these two key elements of local infrastructure will attract investors to North Sulawesi, as well as freeing up the flow of trade into and out of Sulawesi in particular, and to Eastern Indonesia in general.

The formation of the Province of Gorontalo was based on Law No. 38, 2001 and has been in effect since February 2001. As a consequence, the size of the Province of North Sulawesi is now only 55% of what it once was, with Kabupaten Bolmong constituting more than half of this area (see Table 1). Administratively, the province of North Sulawesi is divided into three *kabupaten* (Minahasa, Bolmong, Sangihe Talaud), two cities (Manado and Bitung), 72 *kecamatan* and 1,087 *desa/kelurahan*.

**Table 1. Total geographical area, population and the government administration in North Sulawesi and Gorontalo, 1999**

REGION (Province/Kabupaten)	Area (Km2)	Population	Population Density/km <sup>2</sup>	Number of Kabupaten/ kota	Number of Keca- matan	Number of Village/ Kelurahan
North Sulawesi Province	15,208	1,967,436	129	3/2	72	1,154
Kabupaten Minahasa	4,189 (28%)	720,354 (37%)	172	-/-	30	523
Kabupaten Bolmong	8,358 (55%)	436,174 (22%)	52	-/-	15	265
Gorontalo Province	12,280	827,563	67	2/1	21	289/81
Kabupaten Gorontalo	2,916 (24%)	487,726 (59%)	167	-/-	13	199/33

Note: The numbers between the brackets indicate the percentages of the above provincial data

Source: Statistics Indonesia, 1999.

North Sulawesi in Figures, 1999.

[www.otda.or.id](http://www.otda.or.id)

Before the Province of Gorontalo was officially established, Kabupaten Gorontalo covered 44% of the area in the province of North Sulawesi. Administratively, the Province of Gorontalo covers Kabupaten Gorontalo, Kabupaten Boalemo, and Kota Gorontalo, as well as being divided into 21 *kecamatan* and 370 *desa/kelurahan*. Kabupaten Boalemo is an extension of Kabupaten Gorontalo, bordering the Province of Central Sulawesi, making it the largest *kabupaten* in this new province. At present, the Gorontalo provincial government is preparing its nominations for the election of the Governor. Similarly, in Kabupaten Boalemo the nomination and selection process of the Bupati is currently taking place.

The agricultural sector provides economic support for the majority of the population throughout both North Sulawesi and Gorontalo. Coconut and copra are an important source of income for almost 70% of the community in these two provinces. The area under coconut plantations amounts to 80% of the total area under plantations, with 45% of this in Kabupaten

Minahasa. Kabupaten Minahasa is also the main producer of various important agricultural commodities, including, cloves, corn, vegetables, many varieties of fruit, fish and seaweed. Kabupaten Bolmong is the main rice producer in North Sulawesi, while the Province of Gorontalo is well known for its beef cattle, marketed especially to Kalimantan.

**Table 2. Primary agricultural commodities in North Sulawesi and Gorontalo, 1999**

Region (Province/Kabupaten)	Rice (thousand ton)	Coconut (thousand ton)	Clove (thousand ton)	Ocean Fish (thousand ton)	Cattle (thousand head of cattle)
Province of Sulawesi	231,9	261	5,2	153,6	117
Kabupaten Minahasa	42,3 (18%)	153 (59%)	3,9 (75%)	6,4 (4%)	48 (41%)
Kabupaten Bolmong	188,2 (81%)	48 (18%)	0,6 (12%)	7,5 (5%)	60 (51%)
Province of Gorontalo	135,9	44	0,3	15,4	151

Note: The numbers between the brackets indicate the percentages of the above provincial data

Source: North Sulawesi in Figures, 1999.

The local government hopes to attract investors to the region to develop industries manufacturing agricultural products and by-products. They have promised investors various concessions, including easy access to business locations and licenses. For example, the local government of Kabupaten Gorontalo has taken the initiative to build factories for the manufacture of *nata de coco* (a kind of gelatinous sweet made from fermented coconut juice), in an effort to attract investors as quickly as possible. In addition, they are offering various business opportunities for the manufacture of other coconut by-products, as well as fishing, livestock, wood and rattan furniture, and cement. The local government of Kabupaten Minahasa has offered various investment opportunities, primarily for ocean industries.

The supporting infrastructure for economic development in North Sulawesi and Gorontalo, apart from the Sam Ratulangi Airport and Bitung Port, also includes inter-regional roads and transport networks (urban and rural), both of which are generally considered to be in good condition. Local flights from Manado to Gorontalo (Jalaludin Airport), which ceased operation immediately after the onset of the economic crisis, are now operating again. In addition to Bitung, other important ports in North Sulawesi and Gorontalo include Manado in Kota Manado, Anggrek in Kota Gorontalo, Kwandang in Kabupaten Gorontalo, Tahuna and Lirung in Kabupaten Talaud, and Uki in Kabupaten Mongondow. All of these are transit terminals for cargo vessels and passenger ships passing through the region. In addition, there are a number of small ports spread across North Sulawesi and Gorontalo.

### **3. The implementation of regional autonomy**

This section is intended to provide a brief account of the steps taken by local governments in this region to implement decentralization and regional autonomy, measures will either directly or indirectly affect the business climate in the region<sup>4</sup>.

<sup>4</sup> For a more comprehensive account of the implementation of regional autonomy in North Sulawesi see the SMERU report "The Implementation of Decentralization and Regional Autonomy: The Case of North Sulawesi and Gorontalo".

The relationship between the different levels of government. Since the new policy on regional autonomy came into effect, there has been evidence of a lack of clarity regarding the relationships between the various levels of government, especially between the provinces and the *kabupaten* and *kota*. This is mainly due to the content of Article 4, Clause 2 of Law No. 22, 1999, which states that each autonomous region (province, *kabupaten* or *kota*) “stands alone and does not have a hierarchical relationship with any other (level of government)”. As a result, the following key issues have emerged: there has been a loss of authority for the provincial governments, especially in the eyes of government officials at the *kabupaten* and *kota* level, and there is a clear lack of coordination in the creation of new local regulations (*peraturan daerah – perda*)<sup>5</sup>.

The system of local government and civil administration. In order to improve the provision of services from each local government agency, there is general agreement that a more streamlined system of local government is required to achieve greater efficiency and effectiveness. However, such good intentions may be defeated by the reality that many civil servants and officials need to be provided with formal employment and official duties. As a result, the new local government administrations that have been formed are larger in size than under the previous system, even including the provincial level of government, which now has more limited government authority according to Law No. 22, 1999.

As far as the civil service and appointments is concerned of the the *putra daerah*<sup>6</sup> issue, especially for the official heads of the region, is a long standing problem that first emerged long before the new Law No. 22, 1999 about regional autonomy came into effect. However, officials at the lower levels of government, do not consider this to be a significant issue as many officials in this region (both at the province and *kabupaten* or *kota* levels of government) do not hail from the region. Local *kabupaten* and *kota* governments are generally receptive to the transfer of officials from other regions, provided that it is in accordance with local needs and does not affect DAU.

Government offices must contribute to PAD. Local governments are tending to focus heavily on increasing PAD. This is apparent from the criteria already developed to evaluate the success of particular agencies based on their capacity to contribute to the local income. Several staff at the Trade Office have stated that their agency will be abolished if they do not make a significant contribution to regional revenue and their authority will be transferred to the Economics Bureau within the Local Secretariat. Other government offices have explained that if they are unable to make contributions to PAD, their operating budget will be delayed or the total amount reduced.

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<sup>5</sup> The Province of North Sulawesi has planned to issue local regulations about levies on trade in agricultural produce, and furthermore, the *kabupaten* and *kota* governments plan to issue similar local regulations. The Province of North Sulawesi has released Local Regulation No. 18, 2000 about “Tackling the Consequences of Drunkenness resulting from the Excessive Consumption of Alcohol in the Province of North Sulawesi”. This should apply for the entire province. However, Kota Manado also plans to issue its own regulation. One village in Kabupaten Minahasa has already issued a Village Regulation (*Peraturan Desa – Perdes*) on this subject, while covering this issue. Consequently, each of these regulations stands alone. There is no ordered hierarchy, such as the Constitution, MPR Decisions, Central Government Laws, Government Regulations, Presidential Decisions, and Local Regulations (*Perda*) (MPR Decision No. III/MPR/2000), where each in turn clarifies the implementation of the laws and regulations that are superior to them.

<sup>6</sup> This term can be loosely translated as ‘sons of the region’ and refers to the preference to employ local community members in official positions, rather than those from outside the region, or from the central government.

Those respondents from outside government circles consider that the government's focus on PAD is unfair because regional autonomy policies should be aimed at increasing the provision of government services, rather than burdening the community. However, according to several government officials, PAD is required to increase those services provided to the community. Consequently, several businessmen have stated that they have no objections to taxes and levies collected by local government, but they have also warned the government not to create these charges in a manner that will 'steal money from the community'. Local governments should focus on developing a business climate that will attract investment rather than an environment which will have the opposite effect.

Public policy and community views and opinions. Informants from outside government that were interviewed for this study regard the mechanisms for decision-making about public policy issues as not providing sufficient scope to accommodate the wishes of the community. The attitude of local government and local assemblies (DPRD) still resembles a centralized system of government, and officials are largely authoritarian in their dealings with the community. When one particular NGO proposed draft legislation (*Rancangan Perda – Raperda*) about the management of natural resources, the reaction from the local government and the DPRD was to belittle them. One key official in the Provincial Government of North Sulawesi stated that "there is no procedure for NGOs to propose draft legislation".

Several staff members in the Legal Bureau explained that before proposing draft legislation to the DPRD, government officials often consult with various community groups, mainly staff from local institutes of higher education and NGO activists. However, after the legislation has been passed on to the DPRD, there are usually no further efforts to accommodate the wishes of the wider community. The DPRD merely carries out the formal process in accordance with assembly proceedings and in this way it can claim to represent the community. Consequently, several NGO activists hope that future legislation will guarantee greater public consultation on every occasion a decision is being considered which would have a direct impact on the daily life of the community. In other words, they hope that members of the local assembly will not formally represent the interests of the community, but that they will also represent them in a more substantial manner.

## II. LOCAL REGULATIONS

The implementation of decentralization and regional autonomy has resulted in several major changes in the way that local governments exercise their autonomous rights. One of these changes has been that local governments are creating a larger number of new local laws. On the one hand, this phenomenon can be viewed as a logical consequence of the implementation of regional autonomy, because the regions require a new legal basis to carry out these new powers. On the other hand, several community groups see the creation of these new laws as excessive, having a negative impact on the implementation of regional autonomy. As well as the various regulations that have been issued to manage the administrative changes resulting from regional autonomy, a large number of other regulations have also been issued allowing local governments to impose the largest possible number of new taxes and levies under the guise of increasing local revenues (*Penerimaan Asli Daerah – Local Revenue*).

Viewed from the perspective of the business world, some of these regulations involving taxes and levies constitute tariff barriers that distort market mechanisms. So far only the provincial governments have begun to create regulations that result in non-tariff barriers. However,



there are also indications that *kabupaten* and *kota* governments are also proposing to create non-tariff regulations at this level. The following analysis presents a summary of the various local regulations that have already been ratified or are likely to be imposed in the near future in the Province of North Sulawesi, Kabupaten Minahasa, Kabupaten Bolaang Mongondow, and Kabupaten Gorontalo.

## 1. The Provincial Level of Government

### *Regulation about Local Taxes and Levies*

Although regional autonomy has been directed towards the *kabupaten* and *kota* governments, this does not mean provincial governments have no authority. This has been made clear in Government Regulation No.25, 2000 concerning Authority. Yet, in order to exercise their authority, the provincial governments still require significant funding, especially since they are now employing many civil servants who previously worked in the *kanwil*<sup>7</sup> offices. According to Law No. 22, 2000, all allocated funds resulting from policies are the responsibility of the central government. The case of the Province of North Sulawesi indicates that in practice this concept is not yet being implemented as intended. For the year 2001, the Provincial Government of North Sulawesi only received DAU amounting to Rp75.6 billion. The original level of DAU for this province was actually Rp120.9 billion, but Rp45.3 billion of these funds had to be transferred to the new Province of Gorontalo. However, the routine budgetary requirements for civil servant wages alone are estimated to be Rp198.3 billion. Consequently, if there is no increase in funding, the total amount of DAU provided will only be enough to cover the wages bill until June 2001.

As a result, the Provincial Government of North Sulawesi has attempted to obtain additional funding from the central government, as well as trying to increase its own collection of local revenue. While the local governments' authority to raise local revenue is quite limited, most of the existing taxes and levies are based on Law No.18, 1997. Table 3 provides examples detailing three types of taxes and seven types of levies that have already been ratified, as well as three other types of new levies to become effective in the 2001 financial year. Local Regulation No. 14, 2000 (Taxes and Levies for the Bunaken National Park), and Local Regulation No.16, 2000 (Supervision, Control of Stockpiling and Distribution of Fuel in the Province of North Sulawesi), are new local regulations that have not been targeted to provide local revenue for the 2001 financial year.

The service administration charge as set out in Local Regulation No.1, 2000, is actually another form of 'administration fee' that was previously abolished by Law No.18, 1997. These charges are considered to be potential sources of revenue for the provincial government. Service administration charges are applied to the following: 1) official forms, application forms, and other printed materials; 2) permits, recommendations, and official statements; 3) legal registration of official documents; and 4) publishing invoices.

All of these services are provided by various offices and work units of the Provincial Government of North Sulawesi, in accordance with the procedures on imposing levies outlined in Decree No.85, 2000 of the Governor of North Sulawesi (Implementation Guidelines for Local Regulation No.1, 2000).

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<sup>7</sup> Central government offices in the provinces

**Table 3. Types of taxes and levies imposed in North Sulawesi**

No	Taxes and Levies	Remarks
<b>Regional Taxes</b>		
1.	Tax on Motor Vehicles	Previous local legislation still being enforced
2.	Tax on Change of Motor Vehicle Ownership	Taxed/Previous local legislation
3.	Tax on Fuel	Taxed/Previous local legislation
<b>Regional Levies (services and permits)</b>		
1.	Levies on Printing Maps and Administration Services (Perda No. 1, 2000)	Imposed since 2000
2.	Levies on the Use of Local Government Assets (Perda No. 2, 2000)	Imposed since 2000
3.	Levies on Bus Route Permits (Perda No. 3, 2000)	Imposed/ Amended Perda
4.	Levies on The Sale of Regional Businesses (Perda No. 4, 2000)	Imposed since 2000
5.	Levies on Wholesale Markets and Shopping Centers (Perda No. 5, 2000)	Imposed since 2000
6.	Levies on Health Services (Perda No. 6, 2000)	Imposed/Old Perda
7.	Levies on Fishery Businesses in North Sulawesi (Perda No. 13, 2000)	To be imposed in 2001
8.	Charges to enter Bunaken National Park (Perda No. 14, 2000)	Has not been imposed
9.	Levies on Weighing vehicles (Perda No. 15, 2000)	To be imposed in 2001
10.	Levies on Supervision, Control of Stock-piling and Distribution of Fuel in North Sulawesi (Perda No. 16, 2000)	Has not been imposed
11.	Levies on Job Provision (Perda No. 17, 2000)	To be imposed in 2001

Sources: Legal Bureau, North Sulawesi Province

The provincial government recognizes that Local Regulation No.17, 2000 about Service Levies for the Provision of Employment, is in direct conflict with Law No. 18, 1997. However, the provincial government claims that entrepreneurs and partnerships that have been targeted have been involved in the discussion process both at the executive and legislative levels. According to local government officials, businesses generally support the implementation of this local regulation because they will indirectly benefit through the guarantee of continuing to receive projects from local government. The size of the charges has been set at 1.5% of the total project value, 10% of which will be passed on for the development of the Indonesian Construction Business Association (Gapensi).

Local Regulation No.2, 2000 (Extraction of Local Resources Levy) will also be revised to include those resources and facilities now controlled by the local government, which were previously managed by the “vertical agencies” of the central government.

In relation to service administration in the fisheries sector (Local Regulation No.1, 2000), the local Office of Fisheries provides the following:

- fishing enterprise permits
- fishing permits
- recommendations for fishing enterprises
- recommendations for the feasibility of fishing enterprises
- recommendations for obtaining fishing permits
- official documentation for local fish transportation/origin of goods certificates
- and quality certificates for fishing produce

The *kabupaten* and *kota* governments have also issued their own local regulations and consequently there is concern that there will be overlapping regulations originating from the different levels of government.

At the same time, Local Regulation No.13, 2000 (Fishing Businesses in North Sulawesi) sets out charges on fishing outside of the authority that has been transferred to the *kabupaten* and *kota* governments. Several types of charges are regulated by this regulation, including:

1. The Fish Produce levy is grouped together with the Forest Produce Levy (IHH). The reason given for imposing this levy is fishing industry entrepreneurs exploit ocean produce, which are a form of state property. This levy is imposed on entrepreneurs and owners of vessels with a capacity of 10-30 tons gross and 30-90 horsepower, at the time they request their fishing permit. The tariff charged is 2.5% of estimated annual production and total sales. The revenue target from this levy is approximately Rp625 million.
2. Aquaculture enterprises under the authority of the provincial government operating in ocean areas between 4 and 12 miles from the coast. These are required to pay a tariff of 1.5% of the value of total production.

### ***Levies for examining fish exports***

Fishing enterprises are also burdened with other charges, including levies related to arranging the licenses that are issued each time a ship departs, as well as the official documentation of gross tonnage and the measurement certificates that are required whenever a vessel is in operation.

In order to achieve the increasingly large local revenue targets, several types of potential charges have already been issued as local regulations and are being revised in terms of the size of the tariffs. For example, the tariff on health services, transport route permits, and motor vehicle taxes, have all been increased. In addition, the Provincial Government of North Sulawesi is already planning to impose taxes and levies in various sectors that they still consider to be within their authority, for example:

1. Draft Local Regulation, “Contributions for Quality Supervision and the Development of Clove and Nutmeg Production in the Province of North Sulawesi”. The source and target of these contributions are the traders in all local cloves and nutmegs that are either sold or transported from the region by land, sea, or air. Every trader will require an Official Permit for Inter-island Clove Transport (SKAP-C) or an Official Permit for Inter-Island Nutmeg Transport (SKAP-P), which are both to be issued by the local Office of Industry and Trade<sup>8</sup>. Both these permits are to be issued after the traders provide evidence that the contribution has been paid. The size of the contribution will vary as follows; clove flowers Rp2,000/kg, clove stalks Rp1000/kg, the mace (i.e. the inner casing of the nutmeg) Rp1,500/kg. The contribution for nutmegs has not yet been determined. Since these contributions are actually obligatory charges, they are no different from the imposition of a tax. Consequently, the notion of these contributions as voluntary is fading.

These levies are to be collected in collaboration with the *kabupaten* and *kota* governments. However, this plan has been rejected by the local governments of

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<sup>8</sup> Both of these permits are not only intended as sources of revenue, but are also aimed at the collection of official data on total production, as well as helping to control illegal trading and smuggling.

Kabupaten Sangir Talaud and Kabupaten Bolmong, because they are also in the process of formulating local regulations of a similar nature. Furthermore, the Kabupaten Minahasa government has similar plans, although it is still waiting to see the provincial government's formula for dividing the proceeds. If this formula is considered inadequate, the Kabupaten Minahasa government also intends to issue its own local regulations about clove levies.

Apart from charges on cloves and nutmegs, levies of a similar nature will also be issued for trade in coconut and copra. Traders claim that copra will be hit with a levy of up to Rp100/kg. According to rumor, the funds collected will be directed towards assistance for internal refugees.

2. There are also plans to control the felling of coconut trees because coconut timber has become a source of income for the local community and is developing into quite a significant business (furniture and handicrafts) in North Sulawesi. For each mature coconut tree felled, a levy of Rp5000/trunk will be imposed. The owner will be immediately required to plant a replacement.
3. The regulation of charges in the forestry sector is still governed by provincial and central government regulations. Forestry Business Investment licenses are still issued by the provincial government. As well as this, the levy charged for the Provision of Forestry Resources (PSDH), which was previously known as the Forest Produce Levy (IHH), still falls under the authority of the central government and the *kabupaten* government only receives a share of the profits. To date, this is still a source of conflict between the central government, the provinces and the *kabupaten*.
4. The Office of Industry and Trade in the Province of North Sulawesi has consulted with the central government Department of Industry and Trade in relation to planning the introduction of regulations on alcohol.
5. In the manpower sector, the introduction of licenses for the use of foreign labor has also been considered. Consequently, the local Office of Manpower has made approaches to the Department of Manpower and Transmigration.

### ***Non-tariff Trade Regulation in the Regions***

One form of non-tariff barrier found in the Province of North Sulawesi is a regulation concerning pharmacies, outlined in the Governor's Decree No.4dz/03/891, 13 September 2001, (Temporary Postponement of the Establishment of Large Pharmacies in North Sulawesi). The Province of North Sulawesi has placed restrictions on the ownership of pharmacies by those who do not reside in North Sulawesi, with the aim of protecting local entrepreneurs. The following is a summary of the contents of the Governor's Decree:

1. Licenses for Large Pharmacies in the Province of North Sulawesi are only to be issued to those large businesses with a central office, which own or control assets, and whose owners reside in North Sulawesi. However, these licenses are not to be issued to those who reside outside of the Province of North Sulawesi, even though they may own and control assets within the province. Instead they are to be accorded the status of Large Pharmacy Branches or Representatives.

2. Large pharmacies must own a building or business location in accordance with the stipulations on ownership status.
3. Large local pharmacies are to be given priority as partners with the government in acquiring pharmacies with a value of up to Rp4 billion.
4. The establishment of Large Pharmacy Branches has to be based on the recommendation of the North Sulawesi Association of Large Indonesian Pharmacies.
5. The management of the North Sulawesi Association of Large Indonesian Pharmacies is to be comprised of members of the organization who originate from within the region.
6. Apart from the managers, local residents are to be prioritized in the staffing of the Large Pharmacy Branches.
7. The Large Pharmacy Branches will be encouraged to form partnerships with large local pharmacies in order to distribute their products throughout North Sulawesi.

This situation suggests that there is some justification for emerging concerns regarding policies discriminating against people from outside the region in the interest of '*putra daerah*'.

In addition, there are also indications of local regulations being issued that will create non-tariff barriers in other fields and sectors. One example is the release of Governor Decree No.27, 22 March 2001, about the formulation of a team to conduct field studies and control the declining price of coconuts and copra in North Sulawesi. It appears that the demands of the coconut farmers who are members of the North Sulawesi Association of Coconut Farmers (Apeksu) have forced local government members to create this policy as a result of a protest against the local government on 12 March 2001 (see Box 1).

## 2. The Kabupaten Level

### • Kabupaten Minahasa

For the 2001 financial year, Kabupaten Minahasa received DAU of Rp260 billion, enough to fulfill both routine budgetary requirements and the development expenditure for the region. Similar to other *kabupaten* in the research sample, a large proportion of the DAU received by Kabupaten Minahasa has also been allocated to pay the wages of civil servants (Rp211.3 billion or 81% of the DAU). Nominally, the development funds within the Local Government Budget (Anggaran Pendapatan dan Belanja Daerah – APBD) have been increased compared to previous years. However, despite the adequate level of the DAU funds received by the Kabupaten Minahasa government, in reality this has not reduced the enthusiasm of the local government to find ways to exploit sources of local revenue.

After the local government completed several local regulations dealing with local institutions, including village institutions, it has given immediate priority to the creation of new local regulations to raise levies. Kabupaten Minahasa is aiming to collect Rp15.9 billion in local revenue for the 2001 financial year, which is more than twice the Rp7.4 billion collected in the previous year. This local revenue target is not intended to simply finance the routine requirements of the government, since approximately 20% of the funds will also be allocated for development expenditure. In order to reach this local revenue target, appeals have been made to the relevant technical offices of the local government in order to spell out their authority to create local regulations which will determine the charges that have to be paid by

**Box 1.**  
**Ten (10) demands from the coconut/copra farmers in North Sulawesi**  
**proposed in the demonstration on the 12<sup>th</sup> of March, 2001 in front of the**  
**Office of the Governor of North Sulawesi**

1. Coconut farmers contributed more than 80% of the agricultural produce in North Sulawesi. The interests of the farmers should not be ignored by the Government of North Sulawesi.
2. Teams must be formed consisting of coconut farmers, entrepreneurs, and the government to determine and control the price of copra. The price of copra must be increased to an amount where the price of 1 kg of copra is at least equal to 1 kg of rice, otherwise the official symbol of North Sulawesi must be changed. If, after a period of 6 months, the price continues to decline, then Pak Sondakh (Governor of North Sulawesi), Pak Sualang (Vice Governor of North Sulawesi), and Pak Damopolii (Chair of the DPRD in North Sulawesi) should please, as gentlemen, resign from their positions of office.
3. The supply of palm oil to North Sulawesi from outside the region must be stopped
4. Purchases of palm oil for the citizens of North Sulawesi from outside of the region should be stopped, and the practice of consuming local palm oil should be increased.
5. The local government and Apeksu must lobby the central government to provide funds to subsidize the development of coconut-based industries (including funds for the rehabilitation of coconut plantations), such as has been achieved with palm oil production. The value added tax and income tax that has already been paid by PT Bimoli and other businesses should also be passed on to the region.
6. The payment of Land and Building Tax should be postponed if the price of copra continues to fall.
7. All assets owned by the Minahasa Copra Foundation/Minahasa Copra Cooperatives Centre should be investigated and handed over.
8. The copra stockpiling mafia which have colluded with copra business owners should be investigated and action taken against them. Fixed price contracts with traders from outside of North Sulawesi should be prohibited.
9. The buying and selling of copra must take place via an auction which is organized by Apeksu.

All of the above demands must be fulfilled or otherwise farmers will take strong action.

The provincial government immediately responded to the second demand by issuing Decree No. 27, 2001 on the 22<sup>nd</sup> of March 2001. A team was formed, headed by the chair of Apeksu, Joutje A. Koapaha. The duties of the team include: a) conducting studies on production, pricing and government policies concerning copra; b) determining a copra price level which is genuine for farmers; and c) organizing a public awareness education program about the results of the studies and the decisions about prices outlined in points (a) and (b).

certain groups. For the present time, it is hoped that the main sectors contributing to local revenue will include fisheries, forestry and manpower.

During the year 2000, the Kabupaten Minahasa government ratified 35 new local regulations, authorized with reference to Law No.22, 1999. Sixteen of these cover local taxes and levies, six of which are revised local regulations: No.20, No.24, No.25, No.27, No.31, and No.32, 2000 (see Table 4). The local government hopes that the new local regulations (No.21,

No.22, No.26, No.29 and No.30, 2000) can be implemented effectively in the year 2001, even though there is an ongoing debate with the provincial government about who has the authority over several of these levies. In addition, six categories of local taxes and eight categories of local levies have been created in accordance with Law No.18, 1997 (Local Taxes and Levies), these levies have already been implemented and the charges are being collected<sup>9</sup>.

In relation to the creation of new local regulations, the DPRD has also taken the initiative by releasing Local Government Regulations No. 11 and No. 19, 2000. Local Government Regulation No. 11, 2000 covers the conduct of horse racing in Tompaso. This regulation was created in order to anticipate illegal gambling which continues to flourish. Although its ratification was actually opposed by local assembly leaders, it seems that this was ignored by local council members. Meanwhile, Local Government Regulation No.19, 2000 concerns the provision of licenses to investors from Singapore for building and managing gambling facilities used by wealthier members of the community on one of the remote islands in Kacamatan Likupang.

**Table 4. Titles of ratified local legislation and their reference numbers in Kabupaten Minahasa, 2000**

No.	Titles of Local Legislation	Remarks
No.11, 2000	Entertainment Levies	Has not been imposed
No.19, 2000	Permit for the Management of Special Tourist Area in Likupang, Kabupaten Minahasa	Has not been imposed
No.20, 2000	Levies on the Printing Costs of ID Cards and Civil Registration Documents (amended Perda No. 8,1999)	Already imposed
No.21, 2000	Fire extinguisher inspection	To be imposed in 2001
No.22, 2000	Levies on Printing Costs and Administration Services	To be imposed in 2001
No.24, 2000	Levies on Construction and Building	Amended, has been imposed
No.25, 2000	Levies on the Use of Local Government Assets	Amended, has been imposed
No.26, 2000	The Authority to Determine Both the Type and Size of Tariffs Charged by the Office of Transportation and Telecommunications	To be imposed in 2001
No.27, 2000	Levies on Health Services	Amended, has been imposed
No.28, 2000	Levies on Occupational Health and Safety	Has not been imposed
No.29, 2000	Levies on Shipping Facilities	To be imposed in 2001
No.30, 2000	Levies on Sales of Fish Produce	To be imposed in 2001
No.31, 2000	Levies on Permits to sell Alcoholic Beverages	Amended, has been imposed
No.32, 2000	Levies on Traditional Markets (amended Perda No. 7, 1999)	Already imposed
No.33, 2000	Levies on Local Production Sales	Has not been imposed
No.34, 2000	Levies on Permits to Use public land and Kabupaten Government-owned land	Has not been imposed

Source: Legal Bureau, Regional Secretary of Kabupaten Minahasa.

Levies for the provision of administrative services are set out in Local Government Regulation No.22, 2000, which constitutes a reintroduction of administrative charges that had

<sup>9</sup> Local Taxes: 1) Hotel and Restaurant Tax; 2) Entertainment Tax; 3) Billboard/Advertisement Tax; 4) Street Lighting Tax; 5) Exploitation and Processing of C Mining Tax; and 6) Ground and Surface Water Tax. Local Levies: 1) Waste Collection Levy; 2) Parking Levy; 3) Motor Vehicle Inspection Levy; 4) Terminal Levy; 5) RPH Levy; 6) Recreation Park Levy; 7) Noise/Disturbance Levy; and 8) Transport Route Permit.

been abolished in accordance with Law No.18, 1997 (as observed earlier, the Provincial Government of North Sulawesi has also carried out similar procedures). This regulation applies to various types of services such as the provision of forms, applications or other printed materials, the provision of licenses, recommendations, official statements, legal documents, and other administrative services, provided by all offices of the Kabupaten Minahasa government. This regulation sets out approximately 200 types of administrative services, according to the form and the size of the tariff for each service. Kabupaten Minahasa government considers the imposition of these charges to be quite rational because of the clear provision of services. Meanwhile, the recipients of these services, to date, have not felt overburdened by these charges. Furthermore, the charges are official, and consequently this provides a greater guarantee that the funds collected will be passed on to the local treasury.

As previously noted, the fisheries sector constitutes one of the most potential sources of revenue in Kabupaten Minahasa. Taxes and levies have been applied to almost all activities in this sector through Local Government Regulations No.22, No.29, and No.30, 2000 (see Table 4). Further information about the type and size of the charges in the fisheries sector is provided in Table 5. The charges in the fisheries sector are stipulated by Local Government Regulation No.22, 2000 (Administrative Services), and cover 13 types of services. Several of these are detailed under the single banner of 'levies', making it difficult to distinguish the purpose of one levy from another.

At the time the implementation of Local Government Regulation No.29, 2000 (Shipping Facility Levies) was introduced, there was sufficient opportunity for the owners of business enterprises and fishing vessels to protest because the local government did not possess and was not able to provide satisfactory facilities for fishing vessels. However, the local government continued to approach businesses with the explanation that their contributions are important for the development of Kabupaten Minahasa. Originally, the charges in the fishing industry amounted to 5% of the total value of transactions at the fish auction, including a levy for the Fish Auction Facility (TPI). However, because these facilities were inadequate and could not be used, the fishermen were strongly opposed to the size of this levy. Consequently, the levy was reduced to 2.5%. It is hoped that the funds received can be used to improve the fish auction facilities.

The local government recognizes the difficulty of implementing levies in accordance with existing tariffs, especially fishing levies. For example, the Inengo Fish Auction, which has become the main base for seven fishing boat fleets, only earns Rp6 million per year in annual revenue, whereas according to the total catch, annual levies could reach up to Rp50 million. This has resulted in a lack of enthusiasm on the part of the local government to develop the Fish Auction Facilities because the local fishermen have never made maximum use of the facility.

At present, the taxes and levies which fall within the authority of the local Office of Industry and Trade, are only related to issuing Industry Licenses (SIUI) and Proof of Industry Registration (TDI) for businesses and investment, as well as Business Licenses (SIUP) and Proof of Business Registration (TDP). These charges are set out in Local Government Regulation No.22, 2000. The tariffs charged to obtain SIUI and TDI are determined according to the amount invested, and are usually between Rp50,000 and Rp2 million. Meanwhile, the levies for obtaining an SIUP and TDP are determined according to the scale and the type of the trading business, amounting to between Rp25,000 and Rp250,000. There is a special levy for Warehouse Registration, which has been set at Rp1,000/m<sup>2</sup>. While



information about the size of these charges has not been widely publicized, they have been officially effective since March 2001. To date, business people have yet to strongly object to the implementation of these charges.

The various charges that fall within the authority of the local Office of Transport and Telecommunications are set out in Local Government Regulation No.26, 2000. This regulation outlines the various taxes and levies on services related to land and sea transport, as well as post and telecommunications. However, the only charges that have already been effectively implemented are several categories of levies in the land transport sub-sector. The levies in the sea transport sub-sector, as well as post and telecommunications, have not yet been implemented, as a result of various obstacles including problems with facilities and human resources. Another function of the local Office of Transport and Communications is their authority to issue vehicle registrations (STNK) and drivers licenses' (SIM), previously carried out by the police. Meanwhile, this office believes that charges related to the operation of weighbridges should be handled by the central government. There is concern that if this authority is handed over to either the provincial or *kabupaten* governments it will become nothing other than a source of local revenue while the primary function of the weighbridges, which is to monitor and control the weight of passing vehicles, will be ignored.

**Table 5. Types and size of levies imposed in the fisheries sector in Kabupaten Minahasa**

Number and Titles of Regulation	Types of Levies	Amount
1. Perda No.22, 2000, Administration Services	a) Fishing Enterprise Permits (cultivation and catch)	Rp50.000/letter
	b) Fishing Permits	Rp25.000/letter
	c) Recommendations for Fishing Enterprises	Rp25.000/letter
	d) Recommendation of Feasibility of Fishery Enterprise	Rp25.000/letter
	e) Recommendation to apply for Permit for Fishery Enterprise	Rp50.000/letter
	f) Recommendation to apply for Fishing Location Permits	Rp50.000/letter
	g) Official Letter for Transportation of Local Fish (Letter of Origin)	Rp12.500/letter
	h) Certificates ensuring the Quality of Fishery Produce	Rp100.000/letter
	i) Letter of Fishery Technical Details	Rp50.000/letter
	j) Letter for the Transportation of Fish	Rp50.000/letter
	k) Proof of Registration for Fishery Enterprise Activities: Catching, Cultivation, and Processing	Rp10.000 – Rp25.000/letter
	l) Official Statement of Fish Catch	Rp5.000/ letter
	m) Letter of Sea-worthiness for Operational Fish Catching	Rp5.000/ letter
2. Perda No. 29, 2000, Shipping Facilities Levies	a. Fishing boat 1-5 GT	Rp5.000/hour
	b. Fishing boat 5- 10 GT	Rp10.000/hour
	c. Fishing boat < 10 GT	Rp15.000/hour
3. Perda No. 30, 2000, Sales of Fish Produce	a. Levies on Fishing Enterprises	2,5% of the transaction value
	b. Levies on Fish Cultivation, Sea weeds, and Pearls	1,0% of the transaction value

Source: Legal Bureau, Regional Secretary of Kabupaten Minahasa

Attempts to seek new sources of local revenue continue on the part of the Kabupaten Minahasa government. The results of a study carried out by a local team investigating previous and potential local regulations, estimate that there are approximately 89 potential sources of local revenue in Kabupaten Minahasa. Several technical offices of the local government have planned and prepared draft legislation creating new taxes and levies within their own area of authority. The various forms of taxes and levies that have been considered or formulated by the local government, as well as any relevant problems are listed below according to each relevant sector:

- 1) In the plantation sector, the Kabupaten Minahasa government has drawn up draft legislation about levies on trade in cloves and coconuts. However, the provincial government had also designed similar regulations, arguing that trade in these commodities involves authority across *kabupatens* and it can help to avoid the implementation of overlapping charges. Consequently, Kabupaten Minahasa cancelled its plan on the understanding that the *kabupaten* will receive a share of the provincial government revenue from these charges. The potential for trading in these two commodities in Kabupaten Minahasa is quite significant, since the production of cloves can reach 10,000tons/year and copra 120,000 tons/year.

The local Office of Plantations has also proposed the creation of levies on the felling of coconut trees. Although the draft regulation has already been prepared, its legal basis remains weak and uncertain. Consequently the government's Legal Bureau has not yet agreed to the draft regulation. Kabupaten Minahasa argues that these levies are justified because there are approximately 13 million coconut trees, 7 million of which are already old and require replanting.

- 2) In the food crops sector, the Kabupaten Minahasa government has already prepared draft regulations setting out levies on the distribution of vegetables, similar to the levies on coconuts and cloves.
- 3) The manpower sector is also considered to have the potential to make a contribution to local revenue through the organization of permits for foreign labour, which to date has been arranged at the provincial level.
- 4) The authority over the forestry sector is still being debated with the central government. However, the Kabupaten Minahasa government has created a draft regulation about forestry by-products.
- 5) Regulations for the mining sector have not yet been prepared because they are dependent on a contract between the government and PT. Newmont Minahasa Raya which will be finalized by the end of 2003.
- 6) The local Office of Trade has also been given the task of contributing to local revenue in Kabupaten Minahasa. It is recognized that this office still has significant potential for producing revenue, although efforts need to be made to identify accurately the targets for these taxes and levies, bearing in mind that there are several forms of overlapping authority between the different technical offices of the local government.

The Office of Trade also believes that the provincial government will give them tasks to carry out if the levies on inter-island and inter-regional trade in cloves and coconuts

become effective. The role of the *kabupaten* government will be to issue official statements certifying the origin of goods being traded.

As in the forestry sector, the debate in the trade sector is still continuing between the *kabupaten* and provincial governments over who has the authority to charge levies on particular potential sources of local revenue. For example, in the area of testing and certifying the calibration of instruments, the provincial government is concerned that the *kabupaten* government will take over its role in taking measurements and calibration. The local Office of Trade in Kabupaten Minahasa believes that these tasks should preferably be performed by the provincial government, bearing in mind that the *kabupaten* government does not possess the instruments and expertise required. However, the *kabupaten* government wishes to obtain a share of the revenue from the provision of this service.

- 7) Charges already implemented by other *kabupaten* and *kota* governments have also been considered by the Kabupaten Minahasa government. For example, Kota Manado has already ratified a levy on televisions and it is possible that this will be imitated by Kabupaten Minahasa. The potential to earn additional revenue can be realized through levies on peddlers, (licenses for door-to-door salesmen have already been covered by Local Government Regulation No.22, 2000), company income tax, as well as levies on tailors, beauty salons, and hairdressers.

In Kabupaten Minahasa there was no evidence of any regulations that introduce non-tariff barriers. Several existing regulations only consist of stipulations about regulating services, and determining the sources and targets of the particular taxes and levies. As explained previously, all of these efforts are aimed at locating various sources of local revenue.

The *Bupati* and local government officials are aware that in order to attract investors to Kabupaten Minahasa, they have to improve the provision of facilities and infrastructure as well as concessions for obtaining permits and licenses. Consequently, the Kabupaten Minahasa government has guaranteed that they will speed up the process of organizing licenses through a more proactive approach so that the time required to process licenses should be no longer than two weeks. However, their desire to attract investors is undermined by the enthusiasm to create new local regulations in every sector of the local economy in order to increase local revenue. There is concern that the creation of a positive local business environment will be increasingly difficult to achieve because the DPRD will also be assessing the performance of the local government. This includes its capacity to implement these local regulations. The performance of all offices of the local government will be evaluated in relation to their capacity to produce local revenue. Consequently, it seems that in the short term the importance of increasing local revenue will be given priority over the long term objective of improving the business environment so that is free from distortion.

- **Kabupaten Bolaang Mongondow (Bolmong)**

While the DAU received by Kabupaten Bolmong for the 2001 financial year amounted to Rp140.8 billion, the local government still considers this amount to be inadequate because the funds required for routine expenditure has been budgeted at Rp111.3 billion. Meanwhile, according to information obtained from the central government, if the DAU is sufficient to meet a region's routine expenditure requirements, this region will not receive any additional funding. In order to cover any budgetary shortfall, the opportunity remains to develop local revenue as a source of funding.

There are six categories of taxes and 15 categories of levies (see Table 6) included in the Kabupaten Bolmong budget for the 2001 financial year. All of these taxes and levies are targeted to contribute an additional Rp3.8 billion to the regional budget, a funding increase of 41% from the previous year which amounted to Rp2.7 billion.

The six taxes were determined in accordance with Law No.18, 1997. For example, the Ground and Surface Water tax has not been officially revoked in accordance with Law No.34, 2000 so that this authority can be passed on to the provincial government, because the *kabupaten* government is still awaiting instructions about its implementation. Meanwhile, apart from the Building License levy, the Recreation and Sports Ground levy, and the levy on Identification Cards and Public Certificate Renewals, several other new and amended levies were ratified in the year 2000.

**Table 6. Local regulations regarding taxes and levies in Kabupaten Bolaang Mongondow**

No. Perda	Titles of Legislation
<b>Local Taxes</b>	
No. 1, 1998	Hotels and Restaurants Tax
No. 2, 1998	Entertainment businesses Tax
No. 3, 1998	Advertisement Tax
No. 4, 1998	Street Lights Tax
No. 6, 1998	Tax on Exploitation and processing of C Mining Activities
No. 7, 1998	Tax on Extraction and Use of Ground and Surface Water
<b>Local Levies</b>	
No. 2, 1982	Recreation and Amusement Park levies
No. 2, 1990	Building permit levies
No. 3, 1996	Levies on issuing ID cards and Civil Registration Documents
No. 4, 2000	Bus Route Permit levies
No. 5, 2000	Terminal levies
No. 6, 2000	Parking at public road levies
No. 7, 2000	Special Parking Lot levies
No. 8, 2000	Market levies
No. 9, 2000	Sanitation and Cleaning service levies
No. 10, 2000	Slaughter House levies
No. 11, 2000	Disturbance permits
No. 12, 2000	Health Service Levies
No. 18, 2000	Land Use permits
No. 19, 2000	Printing costs of Map and Administration Service levies
No. 20, 2000	Extraction of Forest By-products permits (rattan and resin)

Source: Legal Bureau, Regional Secretary of Kabupaten Bolmong.

Three other Local Government Regulations (No. 18, No.19, and No.20, 2000), just became effective for the 2001 financial year. These three regulations were an initiative of the DPRD, based on the results of a study comparing different regions. The process of ratifying these regulations was carried out quickly because there was no opposition from the different factions in the parliament, only the view of the executive. Until now, there has been no opposition from the community regarding these three levies. The following is a summary of their content:

1. Local Government Regulation No.18, 2000 (Use of Land Licenses and Levies), regulates and determines the size of the levies for an area of land to be used for a certain period of time. This includes the collection of forest produce, the construction of electricity lines, telephone lines, connecting cables, and water pipelines. Consequently, the main targets

of this levy are those State-owned Enterprises (Badan Usaha Milik Negara - BUMN) which seek to obtain the right to use the land, including enterprises such as PLN and PT. Telkom. State-owned Enterprises such as these usually make decisions in Jakarta (at the company headquarters); consequently it may be difficult for the *kabupaten* government to process their claims.

2. The content of Local Government Regulation No.19, 2000 (The Reissue of Maps and Administrative Services Levy) are not as detailed as the regulations created by Kabupaten Minahasa (Local Government Regulation No.22, 2000), even though the type of services provided are very similar. Details of the scale of levies have only been determined in general, based on the type of services to be provided.
3. Local Government Regulation No.20, 2000 (Licenses to Exploit Forestry By-Products) determines the size of the levy to exploit rattan, resin and other non-timber products. There are two types of levies: a) levies for the receipt of licenses to exploit forestry by-products at Rp100/m<sup>2</sup>; and b) levies for the collection of rattan and resin forestry by-products.

At present, the Kabupaten Bolmong government has already started to prepare various other forms of levies that will appear in local regulations. These efforts have been fully supported by the DPRD. It is expected that the newly formed offices of the local government will be able to achieve their pre-determined revenue targets. According to the Legal Affairs Section, 23 draft regulations have already been prepared that were formulated by the various technical offices of the local government. These have been divided into two groups; nine draft regulations about general service levies and 14 draft regulations covering licensing service levies (see Table 7). Four of these draft regulations amend existing regulations: Transport Route Levies, Extraction of Local Resources Levies, Provision of Public Certificates Levies (previously this was grouped together with Identity Card Renewal Levies), and Building License Levies.

The local treasury office expects that approximately 18 of these 23 draft regulations will soon be discussed and ratified by the DPRD, so that the implementation of these levies can be included in the amendments to the Regional Budget for the 2001 financial year. If these charges become effective, the local government is optimistic that the income obtained will enable them to exceed their local revenue target.

The *Bupati* is continuing to encourage offices of the local government who have yet to formulate draft regulations about taxes and levies, to consider the various opportunities they have to locate new sources of local revenue, based on the authority they have acquired under regional autonomy. However, the *Bupati* has also made an appeal that these local regulations should not contradict any laws of higher authority and that this search for local revenue should not be a burden, or create difficulties for the wider community.

The local Office of Industry and Trade in Kabupaten Bolmong has already proposed four draft regulations based on its authority: Industry Sector Levies, Levies on Licenses in the Trade Sector, Control of the Distribution of Goods levies, and Levies on Arranging Calibration Services. After the Legal Affairs Section completed amendments, the Office of Industry and Trade did not resubmit the draft regulations immediate processing. Believing that there was a strong possibility that these regulations had the potential to contribute to a high cost economy it was decided that more detailed research was required before implementing such a policy for the trade and industry sector.

**Table 7. Draft regulation, on levies and permits in Kabupaten Bolmong**

Service Levies	Levies on Licenses
1. Motor Vehicle Inspection Levies	10. Amendment I Perda No. 4, 2000 regarding Transportation Route Permits
2. Information and Communication Services Levies	11. C Mining Activity Permits
3. Security, Supervision and Guidance Services for stock transportation, and Farming by-products going out/coming in the region/islands	12. Use of Timber on Private Land Permits
4. Use of Local Government-owned Natural Resources	13. Stipulations Regulations on Land Use, and Timber Feeling Permits
5. Levies on Co-operative, Small and Medium Enterprises	14. Recruitment and Placement of Workers Licenses
6. Levies on the Printing costs of Civil Registration Documents	15. Industrial Relation and Work Requirements levies
7. Tourism Levies	16. Building Construction Permits
8. Third Party Contributions to Local Government of Kabupaten Bolmong,	17. Construction Services Licenses
9. Agricultural Extension Service Levies	18. Gold Mining Business Permits
	19. Fuel Stock-piling and Distribution permits
	20. Plantation Management Permits and Levies*)
	21. Licenses the use of a levies on Forest Products
	22. Use of Natural Forest Timber and other forest products permits and Levies
	23. Fishery Enterprise Levies

Note: \*) = as a form of permit and levy on agricultural products

Source: Legal Bureau, Regional Government Secretary of Kabupaten Bolmong.

In relation to the authority of the regions, a debate continues between the provinces and the *kabupaten* over who has the authority to conduct calibration of weighing and measuring instruments. On the one hand, the local Office of Industry and Trade recognizes that the *kabupaten* and *kota* governments do not have the extensive equipment and expertise required in this field. On the other hand, these operational services are already located at the *kabupaten* and *kota* level. Consequently, the provincial government is of the opinion that the authority to carry out these activities should preferably remain in the hands of the *kabupaten* and *kota* governments with continued technical support from the provincial government if required.

Several interesting issues have resulted from the contents of those draft regulations involving taxes and levies that have been formulated by the Kabupaten Bolmong government:

1. In the forestry sector, almost all forest products until now have not been burdened with taxes and levies, including timber produce on private land. However, since the implementation of regional autonomy, there are now many levies imposed on forest products in the form of licenses required by the Kabupaten Bolmong government. These levies have been formulated according to Draft Government Regulations No.12, No.13, No.21, and No.22 (see Table 7).

2. In addition, in the plantation sector a draft regulation has been prepared on Licenses and Plantation Management Levies which determines levies for plantation management licenses and levies on the output of plantation enterprises as follows:

- A plantation produce levy on all types of commodities: 2.5%/kg of the sales price;
- An equipment and infrastructure levy, as well as a levy on machinery used to process plantation produce: Rp500,000/year;
- Levies on middle-men purchasing more than 1 ton: Rp500,000/ton;
- A vanilla levy, where the volume of sales is below 500 kg: Rp500,000, above 500 kg: Rp1 million.

It is estimated that the imposition of these levies will overlap with provincial levies already charged on cloves and nutmeg made effective by the Official Permit for Inter-Island Cloves/Nutmeg Transport (SKAP-C/P). It seems that the local Office of Plantations in Kabupaten Bolmong is not especially concerned about the possibility that the same object will be twice subject to the same levy, believing that all commodities originating from the region can be charged levies. The draft regulation stipulates administrative sanctions of 2% per month if levies are not paid in full and on time.

3. At present, 80% of the levies imposed in the fisheries sector that are imposed on fishermen and traders at the fish auction facility, have been handed over to the provincial government. If the draft regulation concerning Levies for Fishing Enterprises in Kabupaten Bolmong is ratified, then the provincial government regulations should automatically be abolished. According to the draft regulations, the levies cover fishing enterprise permits, fishing permits, fish auctions and wholesale trading licenses, as well as estuarine and fresh water aquaculture. This draft regulation was finalized in February 2001, but it has not yet been discussed within the DPRD.

In determining fish auction tariffs, the local Office of Maritime Affairs and Fisheries has based its calculations based on prices below the market rates (approximately 70-80% of the market price) due to recent large fluctuations in prices. It is hoped that such a flexible determination of the levy will ensure that the income of both fishermen and traders is not adversely affected.

The head of the local Office of Maritime Affairs and Fisheries has stated that when draft regulation was discussed with the fishing communities in 10 *kecamatan*, its contents were readily accepted. Officials always stress that the success of regional autonomy very much depends on the participation of the community, and the guarantee that all revenue collected from levies will be passed on to the local treasury office.

4. The draft regulation on Third Party Contributions stresses that third party contributions are voluntary and can be in the form of gifts, donations, property for religious use, grants, and other contributions. Furthermore, it is stressed that each contribution from an enterprise must be accompanied by a letter of recommendation from the *Bupati*, otherwise it will not be accepted.

5. The *kabupaten* government also plans to impose levies on the activities of cooperatives. This is included in a draft regulation on Cooperative Services, and Small to Medium-sized Enterprise Levies.

6. Within the draft regulation on Agricultural Extension Work Levies, it has been determined that three types of services will incur levies: individual and group extension work

services, extension work consulting services, and determining the methodology for carrying out extension work services.

Several offices of the local government believe that they have not yet made the most of opportunities to maximize the collection revenue in the region. They argue this is because there is a lack of available infrastructure as well as inadequate human resources and local government officials to carry out this task. For example, the new potential of the local Office of Post and Telecommunications, to charge taxes and levies includes its authority over road transport and communications. However, the office has not yet begun to tap sea transportation or post and telecommunications. In addition, there are still many opportunities for the local Office of Maritime Affairs and Fisheries to charge levies on ocean activities. Although this has not yet occurred, the local *kabupaten* government has already started identifying potential targets for levies.

The local Office of Industry and Trade and the local Office of Fisheries is aware that the pressure on every local government office and technical agency to produce new local regulations may lead to duplication of levies between these offices. Consequently, a joint inter-agency forum is required so that the relevant offices can communicate with each other and effectively coordinate the levies already in operation as well as those that are planned. Decisions about which local government office should have the task of collecting the levies does not need to become an issue. However it is important that all funds obtained are passed on to the local treasury office.

In order to monitor the burden of similar levies imposed by neighboring *kabupaten*, the Kabupaten Bolmong government also wishes to coordinate with the relevant offices of the other local governments in the region. At this early stage it is apparent that similar levies will be imposed on goods and services being transported across various *kabupaten*, especially where each local government is establishing collection posts on the roads between the *kabupaten* and *kota*.

The Kabupaten Bolmong government is convinced that it is most unlikely that the community will reject these local regulations and the taxes and charges that are imposed, because various sections of the community were involved in the formulation process. According to the Head of the Legal Affairs Section, NGOs, academics, and entrepreneurs have been involved in the discussions during the initial period of preparation, as well as the discussions at the executive and legislative level. Through this process it is hoped that any community grievances and dissatisfaction, above all concerning the duty to pay the charges resulting from these new regulations, will be minimized.

In Kabupaten Bolmong, as yet there are no local government regulations that involve non-tariff barriers, even though in reality those local regulations involving levies will be followed by non-tariff stipulations such as licenses and feasibility documentation. However, the primary focus of local government discussions at present is on the subject of the levies themselves and not on the details. The proposals for the levy targets have in fact come from business people themselves such as construction entrepreneurs (Gapensi). This matter will be further discussed in Chapter 3.

- **Kabupaten Gorontalo, in the Province of Gorontalo**

In order to implement regional autonomy, Kabupaten Gorontalo was allocated funding of Rp149 billion. Based on this allocation, a regional budget was set at Rp159.4 billion. A large



proportion of the DAU funding (Rp128 billion) will be used for routine expenditure, and consequently the development budget activities are quite limited. The Kabupaten Gorontalo government has made similar efforts to other regions to increase local revenue. If the eventual total revenue collected for the 2000 financial year only amounts to Rp3,9 billion, then the target for the 2001 financial year will be set at Rp5,1 billion.

To achieve this local revenue target, and to strengthen its financial base, Kabupaten Gorontalo has created numerous local regulations concerning levies. During the year 2000, 22 such local regulations were ratified, some of these amendments of previous legislation. Consequently, at present there are a total of 32 local regulations concerning taxes and levies that are already effective (see Table 8), including six regional taxes determined in accordance with Law No.18, 1997.

**Table 8. Types of taxes and levies imposed in Kabupaten Gorontalo**

No.	No. Legislation	Titles of Legislation
<b>Local Taxes:</b>		
1.	1/1998	Ground and Surface Water Tax
2.	2/1998	Exploitation and Processing of C Mining Tax
3.	3/1998	Street Light Tax
4.	4/1998	Hotels and Restaurants Tax
5.	5/1998	Entertainment Businesses Tax
6.	6/1998	Advertising Tax
<b>Local Levies:</b>		
7.	5/1999	Public Road Parking Levy
8.	7/1999	ID cards and Civil Registration Documents Levy
9.	8/1999	Sales of Alcoholic Beverages Levy
10.	10/1999	Special Lot Park Levy
11.	2/2000	Slaughter House Levy
12.	3/2000	Health Service Levy
13.	4/2000	Building Permits
14.	5/2000	Municipal Waste Disposal/Sanitation Levy
15.	6/2000	Terminals Levy
16.	7/2000	Transportation Route Permits Levy
17.	8/2000	Recreation and Sporting Venues Levy
18.	9/2000	Land Use Permits
19.	11/2000	Use of Local Government Assets Levy
20.	12/2000	Exploitation of Forest By-Products Levy
21.	13/2000	Third Party Contributions to the Regional Government
22.	26/2000	Sales of Local Government Production Levy
23.	62/2000	Fire Wood Processing, Stockpiling and Sales Permits
24.	63/2000	Ownership and Use of Chain Saw Permits Levy
25.	64/2000	Levy on Security, Supervision and Guidance in The Livestock Sector
26.	65/2000	Levy on Security, Supervision and Guidance in The Plantation
27.	66/2000	Administration Services Levy
28.	67/2000	Fish Catches and Cultivation in Lake Limboto Permits
29.	68/2000	Wholesale Markets and Shopping Centers Levy (amended Perda No. 9,1999)
30.	69/2000	Traditional Markets Levy (amended Perda No. 4,1999)
31.	70/2000	Disturbance Permit (HO) (amended Perda No. 6, 1999)
32.	71/2000	Printing cost of Maps Levy (amended Perda No.10, 2000)

Source: Legal Bureau, Regional Government Secretariat of Kabupaten Gorontalo.

Local Regulations No.62 through 67, ratify new levies. Consequently, the revenue that will result has just been included in the revenue target for the 2001 financial year. So far, there has been no evidence of any conflict of interest arising between the *kabupaten* and

*kota* governments and the Provincial Government of Gorontalo over the types of levies to be raised. At the time this study was under taken, the new province, Gorontalo, had yet to select a governor or the members of the local assembly and consequently, local regulations had not been issued.

The following constitutes a short summary of the contents of those local regulations that are already in effect in Kabupaten Gorontalo and the problems that have arisen, based on sectors being regulated:

- (1) The forestry sector is covered by Local Government Regulations No.12, No.62, No.63 and No.66, 2000. Local regulation No.12, 2000 determines the size of the levies on the provision of licenses for the collection of forest by-products such as rattan, resin, candle nuts, palm fibers, honey and other non-timber forest products. The size of the levy for a rattan license for example, is Rp15,000 per ton, to be paid by the entrepreneurs in the rattan industry. Payment is determined according to a six-monthly quota system; if the agreed quota is not completed then a license is automatically extended.

Meanwhile, the levies on firewood which are covered by local regulation No.62, 2000 are only paid by large-scale consumers, for example those using firewood for rattan processing and lime kilns.

- (2) The livestock sector is dealt with by Local Regulation No.64 (Livestock Security, Supervision and Development Levies). This regulation covers the following:

- The Registration of Livestock Enterprises, where every small-holder livestock business is regulated by the Head of the Region, and every livestock entrepreneur must register their business.
- Every establishment exporting or importing livestock, animal by-products or stock feed is required to have a permit.
- Livestock producers or entrepreneurs in the industry are required to pay a levy for Security, Supervision and Guidance Services for the industry. For large animals such as cattle, water buffalo, and horses:

(a) there is a tariff of Rp5,000 per head, for the Security and Supervision of imports and exports as well as livestock health examinations.

(b) there are livestock guidelines in the form of import and export licenses, Rp45,000 per head of livestock.

The process of obtaining a license to export requires a letter of recommendation from the *Bupati*. Once approved, the permit is then issued by the local Office of Animal Husbandry at a rate of Rp50,000 per head of livestock. Another levy imposed in this sector is the livestock market levy (managed by the Market Office), incurring a charge of Rp10,000 for every animal sold. There are also levies at the village level for issuing Ownership of Livestock Certificates, the size of the levy varying between villages.

- (3) The target of charges in the plantations sector such as those set out in Local Regulation No. 65, 2000 (Plantation Enterprise Security, Supervision and Guidance Levies) includes the following:

- every coconut palm felled for commercial use will incur a levy of Rp2,500.
- recipients of security, supervision, and guidance services pay a tariff which is determined according to the type of seedling being planted. The size of the tariffs range from Rp10 to Rp50 per seedling or graft, except for ginger that incurs a tariff of Rp150 per kg.
- the tariff on the registration of small-holder and large plantation enterprises is determined according to the production capacity which is approximately Rp50,000 per year.

There is a section of the regulation concerning the felling of coconut palms that provides certain limitations. To retain a balance in the overall population of these trees, only coconut trees that are no longer productive can be felled and this must be preceded by a field officer's inspection. These stipulations are considered far too constraining for coconut plantation owners who argue that they are capable of making their own rational decisions about felling. In addition, bearing in mind the extent of the coconut plantations and the limited number of available inspection officers, it seems unlikely that this regulation will be effective.

- (4) In Kabupaten Gorontalo, levies for administrative services and reprinting maps are set out respectively in Local Regulation No.66 and Local Regulation No.71. The scale of these tariffs is determined using a simple system as follows: a) Rp3,000 for each type of form or other printed material; (b) Rp10,000 for each type of permit; (c) Rp5,000 for a letter of recommendation, official statement or registration; (d) Rp3,000 for any other type of document; and (e) Rp3,000 for the legal certification of a document.

**Table 9. Draft regulations on levies produced  
by local government Kabupaten Gorontalo in 2001**

No.	Titles of Draft Legislation
1.	Fuel and Gas Industry Permits
2.	Extraction of Ground Water Levy
3.	Supply of Electricity Permits
4.	Permits for the Ownership of Tools and Machines to be used in the Forestry Industry
5.	Public Cemeteries Levy
6.	Fishery Business Permits Levy
7.	Supervision of Plantations, Food crops, and Horticulture Commodities Levy
8.	Levies on the Testing and Inspection of Food Crop and Horticultural Seedlings
9.	Levies on the Testing and Calibration of Measuring Instruments, Measuring Containers, Scales, and their Accessories
10.	Industry Enterprises, Trading and Capital Investment Permits
11.	Motor Vehicle Inspection Levy
12.	Land Transportation Business Permits
13.	Establishment of Co-operatives Permits
14.	Levies on the Assessment of Financial Viability of Co-operatives
15.	Assessment of the Financial Viability of Savings and Loans Co-operatives and Units
16.	Fish Auction and Fishing boat Landing facilities
17.	Levies on Labor Power Permits
18.	Levies on Supervision of Occupational Health and Safety

Source: Legal Bureau, Regional Government Secretariat, Kabupaten Gorontalo.

While 75 new local regulations were intended to be **formulated/passed on/drafted** during the year 2001, only 18 were successfully formulated prior to May 2001. (These are presented in Table 9, and a summary of the content of these local regulations is presented in Table 1 in

the appendix). At present, the remaining regulations are still being considered by local government offices with reference to their authority under regional autonomy and the scope of the authority of other relevant offices.

Many of the local regulations which concern taxes and levies, both those which have already been ratified as well as those which are soon to come into effect, are not in accordance with the Kabupaten Gorontalo government's plan to attract local and international investors. According to the list of draft regulations, it appears that there is not one area of economic activity free of tariffs. Several of these new tariffs are actually a reapplication of tariffs that were abolished under Law No.18, 1997 (Local Taxes and Levies). There are concerns that the services to be provided in return for each levy paid is merely a formality that will soon be forgotten, as the local government tends to place more emphasis on revenue collection.

Several staff from the technical offices who have been given the task of collecting taxes and levies admit that they face a dilemma in attempting to balance their efforts to increase services with their efforts to obtain local revenue. Meanwhile, a fundamental problem that cannot be ignored is the difficulties faced by the local governments guaranteeing the welfare of their employees. In one way, it is understandable if local offices tend focus on increasing the collection of revenue because there may be serious consequences if revenue targets are not achieved: senior officials could lose their positions, the office's routine budgets may be cut, or there could be mergers with other offices or agencies. In practice, this problem continues to have a negative impact in the implementation of new local regulations, almost guaranteeing the creation of a high cost economy that will discourage investment in the region.

As outlined above, one of the non-tariff barriers to be ratified by the Kabupaten Gorontalo government limits the felling of coconut palms. In the future, it seems likely that regulations of this type will increase. There are already indications of non-tariff barriers in the fisheries sector with a proposal to limit the number of new investors. Similarly, in the livestock sector, Kabupaten Gorontalo is presently investigating implementing a livestock quota system, arguing that it will help maintain self-sustaining livestock populations.

### **III. THE BUSINESS WORLD AND LOCAL REGULATIONS**

#### **1. Businesses in the Agricultural Sector**

- Clove Commodities

When the Cloves Marketing Board (BPPC) was in operation, the selling price of cloves declined sharply for the farmers, to the point where it fell below the costs of production. In addition to these low prices, farmers were not free to sell their cloves because BPPC held a monopoly over the clove trading system, enforcing various requirements which in the end left farmers at a loss. This situation left many farmers unable to maintain their clove plantations and as a result there was a sharp decline in clove production. One trader from Kabupaten Minahasa estimated that present day clove production levels were 25% of the production levels that were achieved during more prosperous times. In the past farmers could produce 4 tons of dry cloves from a primary clove harvest in comparison to the present day 1 ton. It is estimated that only 30% of the remaining clove trees in North Sulawesi are still producing cloves. One of the things that has pleased farmers with the continuation of the reforms is the

increase in the price of cloves as a result of the dissolution of BPPC and the depletion of existing clove stocks. The current price of cloves is Rp70,000 per kg. However, after the costly process of picking and drying (which can cost as much as Rp20,000 per kg), the farmers net return amounts to Rp50 000 per kg. Nowadays, the clove market is no longer hampered by such a trading system so the farmers are free to choose when and to whom they wish to sell their cloves.

Trading Patterns. After the dissolution of BPPC, clove trading patterns in North Sulawesi were influenced by cigarette factory agents in Java. Merchants would sell their cloves to larger traders in Manado who would then sell them to the cigarette company representatives in the same city. There were also individual buyers operating not as agents for particular cigarette companies but who purchased cloves to sell to smaller cigarette factories in Surabaya. The purchasing prices of these two groups were in competition with each other. The distribution channel was as follows: farmers → merchants → larger traders → and cigarette company agents (like Gudang Garam, Dji Sam Soe, Bentoel and Djarum). Generally, traders were bound into a contract system, meaning that they were required to sell their cloves to the cigarette companies providing the capital.

Levies. At present, local regulations are not causing market distortion and farmers are so far not required to pay any levies to the local government. They are yet to receive precise information about whether a clove levy will be imposed in the future. However, in several villages in Kabupaten Minahasa there is a plan to impose a levy of Rp100-200 on every kg of cloves traded as a means of raising local revenue for the villages concerned.

Traders have proposed that if the local government were to impose a levy on cloves, cigarette factory representatives or the agents taking the cloves out of the region should bear the costs. If this were to occur, the levy process could easily be controlled and implemented.

Levies that large clove traders in Manado are required to pay include: a) levies on fiscal permits; b) waste disposal; c) an advertisement tax (if there is one); d) levies on fire extinguisher permits (again, if those exist); e) levies on five year trade permit extensions (at a cost of Rp800,000); and f) extensions on permits to trade in certain locations, also levied every five years.

## • Coconut Commodities

Coconut and Copra Prices. According to farmers in North Sulawesi, it is no longer possible for the coconut industry to remain as their primary source of income, since the price of coconuts has fallen below the costs of production. Farmers sell whole coconuts for Rp275-290 per kg, while coconut flour factories (for example, PT. Unicotin) only pay Rp300 per kg. Added to this, copra is sold by farmers for Rp90,000 per 100 kg, while the factory's purchasing prices are between Rp115,000 and Rp140,000 per 100 kg. If the present day prices of copra are compared to 1998, when prices were Rp450,000 per 100 kg, it would appear that there has been a drop of 70%. As a result, thousands of copra production enterprises in small-holder plantations throughout North Sulawesi have been abandoned by the farmers.

Trading Patterns. Copra trade in North Sulawesi could be described as having only one buyer. This is because a large proportion of the copra produced (around 75%) is bought by PT. Bimoli, a factory that produces cooking oil. As a result many believe that the price of copra in the region is very much determined by PT. Bimoli's purchasing price policies. In

purchasing copra, PT. Bimoli does not have a co-operative agreement that binds certain middleman traders. Aside from purchasing copra independently, PT. Bimoli also takes advantage of a contract purchasing system, whereby a specific price is set for a two-week period. If traders are unable to fulfill their contracts they incur a fine in the form of a reduction in the contract price.

Varying opinions on the decline in copra prices. According to one entrepreneur, copra prices declined as a result of the drop in world prices (evident at the Rotterdam stock exchange), not as a result of PT. Bimoli's role in the industry. If the price of PT. Bimoli's products on the international market drop, the price of copra purchased from both traders and farmers will also fall.

This view was further substantiated by another North Sulawesi copra trader. In determining the purchasing price of copra, PT. Bimoli carried out basic calculations as follows: the price of Bitung's freight on board (FOB) x exchange rate x 60% (1 kg of copra = 0.6 kg of oil). Therefore, the key to these calculations is the FOB, which is essentially equivalent to the international price. As a result, the local government's plan to fix the basic price of copra does not effectively take into account the fact that the price of copra is dependant on international prices. (in fact, farmers, copra traders and the local North Sulawesi Government could also calculate these prices independently by simply monitoring Bitung's FOB on TVRI's 7.30am program 'Just For Two Hours'). According to one copra trader, if this was to be done, there would be no need for debate over PT. Bimoli's purchasing prices. With this process the local government could estimate the real price of copra and indirectly monitor PT. Bimoli's decisions on copra prices.

Apeksu, however, does not accept the above reasoning. Apeksu, and the various groups supporting the association, have accused PT. Bimoli of arbitrarily regulating copra prices. According to the laws of supply and demand, prices should be quite reasonable as PT. Bimoli's factory capacity is up to 750 tons of copra a day and only 60% of that amount can be provided by North Sulawesi. PT. Bimoli's status as sole buyer has allowed the company to control the purchasing prices of copra. In relation to the purchasing price, Apeksu has made a number of criticisms of PT. Bimoli: they claim that PT. Bimoli is quick to adjust its purchasing prices if the price of copra declines, but is very slow to make the appropriate adjustments if prices rise. It is also alleged that PT. Bimoli imports copra from Central Sulawesi and the Moluccas, and is not interested in helping protect the actual copra purchasing price at the level of the farmer. In addition the company is far too rigid in using the FOB prices.

North Sulawesi's Local Chamber of Commerce is one of the groups that have supported Apeksu's criticisms. Yet members of the local Chamber of Commerce themselves admit that they cannot do much to change the copra price situation. According to one Local Chamber of Commerce board member, PT. Bimoli is at the root of the copra price crisis, describing it as a 'large and powerful company...the people's enemy'. He added that 'on the pretext of following the dictates of the market, they are able to regulate prices as they wish. Even if the entire community united against them, they would not have a chance'. According to estimates, PT. Bimoli has already invested up to Rp80 billion in the local copra industry. Several years ago, another independent entrepreneur invested Rp5 billion in this sector, but was later quietly bought out by PT. Bimoli.

Apeksu: An attempt to help farmers. Apeksu was formed in the year 2000. Presently, it has representatives in several primary copra-producing villages. They fight on behalf of the

farmers and their best interests, because coconuts constitute an important source of revenue for the majority of North Sulawesi's farmers.

The following considerations were taken into account when Apeksu was formed:

1. The implementation of regional autonomy had yet to have a positive effect on coconut farmers.
2. North Sulawesi's local government was yet to come up with a policy that supported coconut farmers, despite the fact that this group makes up a large portion of all the farmers in North Sulawesi.
3. The farmers represented by Apeksu did not agree with PT. Bimoli's justification for the fall in copra prices. The farmers were sure that PT. Bimoli had manipulated the situation to keep purchasing prices down.
4. The pre-payment system (that is purchasing copra from the farmers before it is even harvested) remains in use, leaving farmers in a vulnerable position.
5. Apeksu wanted to help the coconut farmers with their plans to establish a coconut farmers' bank. This bank would then fund the establishment of a cooking oil factory, with the shares owned by the farmers themselves. The plan was to produce membership shares at a price of Rp50,000 per share with every member owning a minimum of five shares.

To attract the attention of local government, as well as PT. Bimoli and the general public, Apeksu organized a protest involving coconut farmers in Manado. These farmers protested in front of the North Sulawesi Governor's office with 50 ox-drawn carts. When the opportunity arose, they presented their 10 demands to the local government, as outlined in Chapter II (see Box 1).

The governor responded to the protest by accommodating a few of the farmers demands, he issued a decree forming a team to study the price of coconuts. The aim of this team was to reach an agreement on fixing the price of coconuts by involving both the farmers and the purchasers (including PT. Bimoli). In addition, a draft regulation was prepared to collect levies on copra coming from outside of North Sulawesi (for example, the Moluccas). The governor also announced that he would fight to obtain funds for the rehabilitation of coconut plantations and a share of both the value-added tax and income tax from the central government.

Levies. Coconut farmers and copra producers have acknowledged that they have yet to be subjected to local government levies, even though regional autonomy has already been implemented. Therefore, they hope that when the local and village governments request contributions from them, they are only voluntary and are aimed at creating concrete benefits.

Present levies focus on copra or coconut transportation. Officials collect these levies on the highways and at truck weighing stations. For example, there are three truck-weighing stations between Kecamatan Amurang and Bitung. At each of these stations, trucks with a 7 ton capacity are immediately charged Rp3,000 without even checking if their load exceeds the truck's.

There are various levies which must be paid by large companies. As reported by PT. Unicotin staff, these include: levies on staff retrenchment, tariffs on fire extinguisher checks, and levies on permits for employing foreign staff. The reasons behind the retrenchment levies are unclear and it is commonplace for individuals to question this procedure. Although, there are obvious reasons for fire extinguisher checks, in practice, these are never carried out. Levies for the employment of foreign staff are the responsibility of the companies. The problem is not so much the number of the existing levies, but the time that is required for these administrative procedures which often results in illegal payments. It is precisely this matter that has created problems for the operation of large companies.

## **2. Businesses in the Fisheries Sector**

Fisherman's Activities. Fishing that takes place in the ocean waters around North Sulawesi is generally carried out by fishermen and/or boat crews who are dependant on boat owners or those with capital. Tuna and flying fish are the most common varieties caught. A large proportion of the fish is sold to cold storage or export companies. Due to the large number of buyers there is room for considerable competition.

In May 2001 in Bitung, the sale price for poor quality tuna and skipjack was around Rp6,000 per kg, average quality sold for Rp9,000 per kg, and high quality produce reached Rp12,000 per kg. On average each catch comprises 20% high quality, 50% average and 30% poor quality.

Aside from fish, a number of fishermen have put some of their efforts into seaweed cultivation. The harvested seaweed is sold to exporters in Manado. These fishermen obtain their capital from businessmen or exporters through a partnership system. One seaweed exporter said that he went into partnership with around 3,000 fishermen and produced 150 tons of dry seaweed a month. Seaweed is purchased from the fishermen at an average price of Rp4,250 per kg.

Levies on Fish Auctions. All of the *kabupaten* visited by the SMERU team are implementing a system of levies, fixed at 5% of the value of each transaction. The levies are generally the responsibility of both the fishermen and the traders, each incurring a 2.5% charge. As not all the fish are sold in the fish auction area, the levies are usually borne by the traders or the exporters who pay the local treasury directly. In practice, the collection of levies has not been carried out strictly nor in accordance with the regulations, but have been based on some sort of agreement or price estimate.

Local regulations presently in effect regarding the levies on fish auctions have never been introduced or explained properly to either the fishermen or the traders. Fishermen and traders in several parts of Bolaang Mongondow reported that they received information on the levies from local government officials who calculated the revenue. Nevertheless, the provision of a public auction space is one sign that the local government is making some attempt to help the local fishermen.

Levies on Seaweed Enterprises. Similar to the situation of the fish traders, seaweed producers are obliged to pay various types of levies. These include:

1. Maritime entrepreneurs are obliged to pay a 2.5% levy on the value of each transaction to the local government.



2. Seaweed producers are required to pay for quality control certificates, at a cost of Rp100,000 per certificate.
3. They must also pay Rp1.1 million for the obtaining of a business-trading license, which is valid for five years. According to several fishermen, the local government is also intending to create a business license for fishermen and seaweed producers. Up until now these two groups have been considered as part of the large companies with whom they have a client relationship and who pay for and obtain the business licenses.

According to one seaweed producer, since the reforms were carried out, the organization of documents has become a lot smoother and transparent, and it appears that the collection of illegal levies no longer occurs. In the past there were third party contributions, however these were abolished several years ago. The main problem facing seaweed producers is a lack of security at the production site and along the highways. Other problems arise from local governments that are still regarded as authoritarian, so that decisions involving the fishing industry are unilaterally determined without any attempt to take account of seaweed producers or fishermen's opinions.

The Perikani State Enterprise. The Perikani State Enterprise is active in the cold storage industry. It stores fish (primarily skipjack and flying fish) and supplies both the local canning industry and the export market primarily through Bangkok. At present, all of their supplies of fish are purchased from fishermen through middleman traders. The company has a total production capacity of 600 tons a day, but as present, as fish catches are down, the production rate is as little as 30 tons a day. Perikani has estimated that it only receives around 10% of North Sulawesi's total catch. There are quite a number of enterprises of this type operating out of North Sulawesi. Consequently prices are determined in a competitive environment. Recently, world fish prices have been on the increase again, for example, the present price of skipjack is around US \$600 per ton, compared to a previous low of US \$400 per ton.

Fishing industry entrepreneurs have begun to notice the impact of regional autonomy with the emergence of plans to implement a range of new regulations. Fishing licenses have been imposed in every *kabupaten* and *kota* with access to the sea. If all of the planned local regulations were to be put into effect, those people in the fishing industry will be obliged to pay these levies and much of their time will be occupied with licensing and tariff procedures in every region where they operate. In turn, all of this will result in the emergence of a high cost economy.

Mina Enterprises Ltd. This State Enterprise has been in operation in Gorontalo since February 1988. During this time, they have only been subject to a 2.5% local levy, which they have not regarded as excessive. A major problem now facing Mina Enterprises Ltd. concerns the changes that the central government intends to impose, where the company will be subject to a national income tax amounting to 10%.

Mina Enterprises Ltd. has a cold storage capacity of 200 tons. All of their fish supplies come from fishermen who are grouped under co-operatives. The purchasing contracts are made directly with the co-operatives who look after up to 700 fishermen. Presently, there are five such co-operatives in Gorontalo, resulting in quite a competitive environment. In certain seasons, when Bitung and Makassar experience a shortage of fish, buyers and traders from these ports can travel as far as Gorontalo to purchase fish, consequently increasing local competition.

In connection with this competition, Mina Enterprises Ltd. has proposed to the Office of Fisheries at the provincial level<sup>10</sup> that government should tighten the requirements for companies wishing to start out in the industry (a kind of negative list or set of protection measures). For example, if a new company is intending to start out in the industry, they should be allocated fishing grounds further offshore. According to Mina Enterprises without such a regulation, the existing companies will have to compete for the limited available resources.

### **3. Businesses in the Livestock Sector**

Kabupaten Gorontalo has four livestock markets that are managed by the Office for Markets. These markets are open for trade once a week alongside a weekly general retail market that sells all kinds of basic necessities. Traders and middlemen carry out all the transactions that take place in these livestock markets. At Pulubala's market in Kecamatan Tibawa, one of the livestock markets visited by the SMERU team, between 12 and 30 head of cattle were traded during a typical market day. Each cow sold at the market incurs a Rp10,000 tariff (in line with the Gorontalo Government's Local Regulation No.7, 1999) and must be accompanied by a 'Livestock ownership certificate from the Pulubala Village'. This service is carried out by officials from the Office for Markets and the local village. As to who pays the levy, this depends on each agreement reached; however, generally it is the responsibility of the owner of livestock or the person who makes the sale. The funds from the levy are then divided up: 5% to the official collecting the levies, 57% to the local government, and 38% to the village treasury.

If livestock are transported out of the region, the trader is subject to a levy of Rp50,000 per head of cattle. Drivers of livestock carriers, report that all livestock incur such levies, even those that are intended for slaughter or trade outside of the region. For example, when they transport animals that have just been purchased by local farmers who intend to use them for breeding, they are still compelled to pay the Rp50,000 levy. These levies are rendered at inspection stations (involving officials from the Office of Animal Husbandry, the Local Treasury Office, the Office for Communications and Trade as well as the police) that are located on the borders of Kabupaten Boalemo and Gorontalo. Officials argue that all livestock leaving Gorontalo are subject to the levy, while truck drivers contend that this is one of the flaws in the existing regulations. Usually however, a compromise is often reached with a payment of Rp40,000 for every three head of cattle.

### **4. Businesses in the Forestry Sector**

Rattan. Gorontalo is Eastern Indonesia's primary rattan producer, with numerous rattan manufacturing and processing companies emerging in the area. Apart from the raw materials that come from Kabupaten Gorontalo,<sup>11</sup> a large proportion also come from Kabupaten Bolmong. It has been recognized that Kabupaten Gorontalo does not enjoy the value-added benefits that could result from rattan production because the raw materials are all processed in Java. This has become a challenge for entrepreneurs in the rattan industry in Gorontalo.

Entrepreneurs in the industry think that with the implementation of regional autonomy, the business climate will become uncertain. On the one hand, there are advantages to the provisioning of licenses, as management practices are simpler and easier. Yet on the other

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<sup>10</sup> At the present time this company's area of operations extends into the Province of Gorontalo.

<sup>11</sup> Following the creation of the new province of Gorontalo, this *kabupaten* has now been divided into two: Kabupaten Gorontalo and Kabupaten Boalemo.

hand, taxes and levies are increasing as a result of the various forms and the numerous collection posts.

Entrepreneurs in the rattan business are subject to levies amounting to Rp15,000 per ton of rattan sold. These levies are set out in Local Regulation No. 12, 2000 (Forest by-product Levies). It is not so much the actual cost of the levies that are making the entrepreneurs anxious, but the way in which the local government is imposing these regulations. The government did not carry out an effective information program but simply informed rattan producers of the levies in a letter backdated by four months (that is, they were informed in April 2001; however, the levies were calculated from January 2001). Consequently, the entrepreneurs in the rattan industry were shocked and objected as they felt that they were not involved in the formulation of these local regulations. They even appeared before the *Bupati* to lodge a protest. However he simply responded to their threat by declaring that 'if you don't want to agree, then please yourself. But this means your permits will be revoked'. The *Bupati* argued that 'the region needs funding to develop, and therefore business people need play their part'.

Levy Collection Stations. Agricultural produce levy stations, particularly those collecting levies on forest products, are already in operation. Throughout the whole of Kabupaten Gorontalo there are five levy collection stations, which have been established in various locations. Each was chosen due to their proximity to rattan transport routes. At one of the stations visited, a Rp15,000 levy was imposed per rattan truck, paid by the trader. These traders ensure, however, that a portion of these levies is borne by the farmers. They do this by reducing their purchasing price. The levy collection officials plan to fine rattan carriers that exceed the regulatory weight limit. The size of the fine is yet to be determined, and will depend upon an agreement reached between the officials and the traders. Past experience suggests, however, that the officials will have more say in determining the amount to be levied.

Other Problems Faced by the Rattan Industry Entrepreneurs. Other issues causing anxiety for those in the industry include the discriminatory treatment being handed out by the Kabupaten Gorontalo Government. There have been various new regulations and levies imposed on licensed businesses that now have to be obeyed. Meanwhile, numerous illegal businesses in the rattan industry have been left alone. The local government has not yet taken any action against those unauthorized entrepreneurs in the industry who are suspected to have the protection of 'people of influence'. Essentially, the entrepreneurs in the industry all agree that there needs to be a clear set of regulations that supports the sustainability of their businesses. For example, entrepreneurs certainly require an origin of goods certificate to indicate that their goods are really leaving a certain region and that the levies on these goods have already been paid. In this way, they hope that they will be exempt from paying levies elsewhere during transport.

Entrepreneurs in the rattan industry admit that many of them do not fully understand regional autonomy, especially the differences between Provincial and *kabupaten* authority. For example, when one local entrepreneur filed a request for a forest management license with the local government at the *kabupaten* level, his request was rejected. This same entrepreneur then applied for the same license with the provincial government who subsequently granted his request. However, when he began business operations he was reprimanded by *kabupaten* government officials who prohibited him from operating in that region. This entrepreneur was confused because under the New Order Government things were never quite so complicated.

## 5. Businesses in the Construction Sector

Construction Enterprises and Regional Autonomy. The manager of Indonesia's Association of Construction Consultants (Gapensi) in Kabupaten Bolmong believes that the central government is not yet really committed to handing over authority to the regions. As a consequence many entrepreneurs are feeling that their movements are being restricted, particularly those working in the construction industry. They tend to complain about the difficulties in obtaining central government projects in the regions (that is, projects funded by the Central Government Budget) because the central government still allows any contractors including those from outside the region to compete. This free competition can kill the chances of local enterprises obtaining a project. Even if they win a small-scale project, their role remains marginal. The cause of the problem is the tough tender conditions imposed on central government projects, so that entrepreneurs from the regions are always eliminated. Some time ago, approximately 60 Gapensi members submitted applications for a certain project, but not one of them was successful. In reaction to this, Gapensi proposed that a local regulation be drafted to protect the rights of local contractors who wish to work on local projects, especially those funded by the Central Government Budget. It was hoped that there might be a division of labor between local contractors and those from outside the region so that there would be some sort of assurance of work for the local contractors. According to one contractor 'if possible, there should be regulations ensuring that local projects are only carried out by local contractors'.

The manager of Gapensi in Kabupaten Minahasa also admits that entrepreneurs active in the construction field (that is members of Gapensi) are not yet ready for autonomy. This is indicated by the large number of business contractors who rely totally upon local government projects. Actually, it could be said that, the viability of their companies depends upon the local government. Up until now, Gapensi members have never worked on a project of their own, such as a housing complex construction project. They have never had the capacity to invest or draw on the potential of the region, particularly its natural resources and tourism. The obstacle is not only a lack of capital but also these companies are not yet able to rely on their own human resources. According to the certification records of all companies providing goods and services, who are members of the Provincial Chamber of Commerce and Industry in Kabupaten Minahasa, it would appear that only 30% have reasonable management systems.

The Business Climate (Transparency, Corruption, Collusion and Nepotism-KKN). Business people and entrepreneurs have begun to show concern about the local governments' tendency to raise revenues through the creation of new levies and taxes or by increasing existing charges. Gapensi and the Chamber of Commerce and Industry, however, have yet to deal with this issue because many of the local regulations that have been approved have yet to be effectively implemented and their actual impact on entrepreneurs is not yet evident.

Basically, both Gapensi and the Chamber of Commerce and Industry have no objections to levies involving the provision of licenses, provided that the money collected from these levies actually reaches the local treasury. Entrepreneurs, primarily contractors have never really made an issue out of levies and taxes. They have always found a way to move these items into the expense column when calculating their tender price. In this way, outlays to cover the payments of taxes and levies have never reduced their profit margin.

Although in Kabupaten Gorontalo business people in the construction sector still pay third party contributions, the cost of these has substantially decreased when compared to the period

before the emergence of the reform movement. In the year 2000, Gapensi's total third party contributions amounted to Rp300 million, but when many Gapensi members were previously busy their contributions amounted to Rp1.4 billion. Added to this, the semi-official cut from each project received by entrepreneurs now tends to be smaller, in line with the suggestion made by the Local Chamber of Commerce in Kabupaten Minahasa. This improved situation is a result of the development of a system whereby both the DPRD and the community are beginning to monitor the activities of local government. Previously, local government charges were unofficial and could amount to 10-12% of the total project value. However, current levies are set at only 7% of the project value.

Nevertheless, corruption, collusion and nepotism in the public service system continue to occur. Some examples of this include:

- Information on the cost of obtaining a consultant's business license varies from one official to the next, with a significant difference between the figures quoted. According to one report, a businessman wanting to organize a license asked three different officials the price. The first official quoted him Rp700,000, the second Rp400,000, and the third Rp200,000.
- Business licenses still have to be organized at two levels of government, that is at the provincial and *kabupaten* and *kota* levels. This licensing procedure, aside from wasting a lot of time is generally accompanied by an unofficial fee.
- There are still numerous levy collection stations along transport routes that are frequently used by carriers of agricultural produce, primarily timber. Entrepreneurs are generally prepared to pay a single levy at one of these stations but they are not prepared to pay at every collection station.
- Post-regional autonomy, the tender process seems to have generally deteriorated, since it appears that from the year 2000, certain entrepreneurs appear to have been pre-chosen for projects that are supposed to be up for public tender.

## **6. The Perceptions of the Non-business People**

### **• Non Government Organizations (NGO)**

The Implementation of Regional Autonomy and Public Policy. Several NGOs informants believe that the implementation of Law No. 22, 1999 on Regional Government constitutes a new era. They hope that it will lend to changes in several aspects of regional government administration. However, in carrying out this process of change there are still a number of strategic problems that must be overcome so that the goals of the policies can be met. Some of these problems that are relevant to the business climate include the following:

1. The local government has made few steps towards conducting public information campaigns to explain the new policies. This has resulted in the community asking numerous questions about various public policies. The formulation of local regulations, especially in relation to levies, has resulted in many objections from those required to pay. It is often suggested that the local government only wants to collect the funds from the levies and is not concerned about paying any attention to the services or facilities required by the community. Complaints about signs of compulsion in the collection of

levies led to petty-traders in one of the local markets holding a protest rejecting the collection of these levies.

2. The mentality and attitudes of both executive and legislative officials has not yet changed very significantly from those that held sway under the New Order. This is evident with the continuation of KKN practices. This matter constitutes one of the weak points of the implementation of regional autonomy in North Sulawesi.

#### The power and performance of the Local Assemblies.

As a result of Law 22, 1999, the local assemblies have been given a large amount of power. In fact sometimes it appears as if they are superior to the local executive. It is possible that this delegation of authority could become the foundation for a democratic and transparent process for the implementation of government administration in the regions. However, it appears that the local assemblies have not yet used the powers that they have gained to achieve the goals. Local NGO activists have made the following observations about some of these issues:

1. Local assemblies still use much of their authority to obtain money for the personal interests of their members. There is presently a rumor in one *kabupaten* that before the assembly is prepared to begin work on draft legislation, the local government is obliged to issue money to the assembly members. Members also intervene in the project tendering process as several of them are still contractors.
2. In regard to the quality of assembly members, according to an NGO activist, the assembly is still heavily influenced by the bureaucratic style of the previous New Order Golkar government, and hence the political will to wipe out KKN is still considered weak.

#### • **The Perception of the Local Press**

The local press helps the community to follow and oversee the implementation of regional autonomy by providing a sufficient coverage of regional news. The following constitutes a few of these issues that are frequently reported quite critically by the local press:

1. Assessments of the provincial, *kabupaten* and *kota* governments suggest they are yet to come up with a sound strategy for the implementation of their authority gained under autonomy. Also they are yet to develop a clear approach on how to raise service standards and develop the business climate in the region.
2. The provincial, *kabupaten* and *kota* governments have a tendency to interpret local autonomy as the legitimization of their efforts to increase local revenue. For example, all local government offices are currently being pressured to work on collecting local revenue within the area of authority of the particular agency concerned, despite the fact that not all government offices have the potential for this. In connection with this, local government should focus their efforts on creating the conditions conducive to investment. Only if there is investment will there be any chance to improve the people's welfare and increase regional revenue.

#### • **The Perception of Academics**

Several weaknesses, even flaws in the implementation of Regional Autonomy can be identified. Some of the most prominent include:

1. The *kabupaten* and *kota* governments are still interpreting Law No.22, 1999 and Law No. 25, 1999 inaccurately. This is evident in the local government's enthusiasm for increasing local revenue; however there is little evidence of such enthusiasm for improving the quality of public services.
2. Local governments do not have the courage to reduce the total number of civil servants that they employ. They have, in fact, taken on extra officials from outside the bureaucracy despite the fact that there are limited key positions and funding is insufficient. In turn, local governments have made efforts to increase its income with the implementation of all kinds of taxes and levies on almost all of the community's economic activities.
3. Basically, the community desires powerful local assemblies, but if these institutions cannot ensure the high quality and moral standards of their members, their position of power may in fact become a hindrance on the wider community. So far they have been too easily able to approve various pieces of draft legislation on taxes and levies without any consideration of the effects on the regions' economic activities.

- **The Perception of Village Co-operatives**

Village co-operatives believe that local government information programs about their policies have been insufficient. In one region, for example, officials from the Local Treasury Office suddenly started collecting a 10% restaurant tax on the turnover of roadside coffee stalls owned by village co-operatives. This tax on turnover really did not make sense. Total sales turnover averages about Rp6 million per month resulting in roughly Rp600,000 being paid in tax, despite the fact that such stalls only make a monthly profit of around Rp250,000. This system of taxation is just another way of throttling small-scale community economic activities. If the village co-operatives operating these coffee stalls are both forced to pay such a tax, they would have to raise their prices by 10%. The results can be easily imagined - customers would soon start to frequent other coffee stalls which don't have to pay such a tax.

## **IV. THE TRENDS IN THE IMPACT OF REGULATIONS**

### **1. The Impact of Levies**

The following chapter aims to analyze several trends that may result from the implementation of local government policies (see Chapter II) as well as the reactions and perceptions of business people, NGOs, the press and academics (see Chapter III) to the regulations.

Excessive levies on many of the community's economic activities are likely to lead to inefficiencies in the system and a high cost economy.

Of the three *kabupaten* visited, Kabupaten Gorontalo had devised the highest number of local regulations and pieces of draft legislation involving taxes and levies. During 2001, the Kabupaten Gorontalo government aimed to create 75 such local regulations. Similarly, the Kabupaten Minahasa government identified as many as 89 possible ways to collect local revenue. While, the Kabupaten Bolaang Mongondow government has prepared approximately 23 new pieces of draft legislation containing taxes and levies.

The farming sector constitutes the primary support and means of livelihood for most individuals living in these *kabupaten*. However, for the local government, this sector is

potentially an important source of revenue. Although the taxes and levies are applied directly on the traders in agricultural produce, the farmers will also feel the impact indirectly. Traders admit that they will funnel a portion of these levies off on to the farmers by reducing the prices that they pay to farmers for their produce.

The impact these regulations have had on the business climate is also starting to become apparent. Indications of this are evident in the number of levies collected from drivers as well as entrepreneurs along the transport routes (see Box 2).

Entrepreneurs have started to worry that when all the local regulations come into effect, the price of goods will increase at the consumer level. This means that whenever community purchasing power is low, there will be a resulting drop in the volume of sales of goods.

Levies have already resulted in inefficiencies in the distribution system between regions, and also have the potential to create a high cost economy in the near future.

### **Box 2**

#### **Some of the levies that must be paid along the road between Gorontalo and Manado**

A group made up of people from the Local Treasury Office, the Roads and Traffic Authority and the police, carry out official load capacity inspections and collect levies on this road. These official levies are based on local regulations formulated by Kabupaten Gorontalo and Kabupaten Minahasa.

Some of these official and unofficial levies which the truck drivers and entrepreneurs are obliged to pay during their journey between Gorontalo and Manado include:

1. The organization of a permit to transport fish at a cost of Rp3,500. Similarly, traders must pay for a permit to transport large livestock (cattle) outside the region, at a cost of Rp50,000 per head.
2. There are three weighing stations (one in Gorontalo, and three in Minahasa). Vehicles or trucks with a capacity of 5 tons are charged Rp3,000 (whether the load exceeds the limit or not). Similarly, vehicles or trucks with a capacity of 8-10 tons are charged Rp5,000.
3. The Gorontalo Office for Communications also passed a terminal levy that is popularly known as a regional fiscal tax. This can be paid for a year inclusive at a cost of Rp100,000 or Rp75,000 for 6 months.
4. There are also tolls of Rp1,000 or Rp2,000 along the road that must be paid at each of the five surveillance posts between Gorontalo and Manado (one in every *kecamatan* along the route).

The main considerations for the creation of local regulations focus on means to seek out local sources of revenue, while efforts to increase the standard and quality of services for the public tend to be ignored.

Based on the power and authority they have been given, every local government technical office has been urged to think carefully and come up with ways to locate sources of local revenue. In fact, one *kabupaten* has directly linked the success of its government offices at locating local sources of revenue and the size of the budget that will be allocated to each of them.

Local regulations include mention of the authority to increase services for the community. However, this seems to be little more than a formality. It is clear that local governments have yet to formulate mature plans to indicate how they will provide services and facilities for the community in order to justify their collection of levies.



It is quite possible that the collection of levies will be strongly enforced. It is apparent that local governments are only concerned about collecting the funding from the levies, without paying any serious attention to the quality of services and the provision of facilities required by the community.

As a result of the large number of levies created, the local governments have been inconsistent in their efforts to increase investment in the regions.

The local governments are aware that in order to accelerate the rate of economic growth in the regions they will have to attract the attention of outside investors. To achieve this, local government has begun to think about various ways to make the investment process easier, as well as the facilities that are required to ensure that investors remain interested enough to invest their capital. However, in reality, the local government is also eager to formulate policies on taxes and levies that will increase local revenue even though this tends to create a business climate that are neither healthy nor competitive.

The blurred relationship between the *kabupaten*, *kota* and provincial governments opens the possibility of duplication and overlapping levies being applied to the same goods and services.

Under regional autonomy, the *kabupaten* and *kota* governments hold more power and authority than the provinces. Added to this, the hierarchical relationship between those two levels of government has been fractured. There is a continuing need for coordination between the *kabupaten* and *kota* governments and the provincial governments in many strategic fields. However, up until now such links have not yet been formed.

Based on their authority, the *kabupaten* local government has created regulations about the organizational structure of their administration as well as those concerning taxes and levies in order to collect local revenue. As well as this, the provincial government, which still considers that it retains certain authority, has carried out similar reforms, including taxes and levies for revenue purposes. As a result of this, there is a strong possibility that levies will overlap between the two layers of government. This problem has already become a worry for several groups within the community, primarily local business people.

The following two examples illustrate some of the possible outcomes:

1. Levies at the provincial level in the fisheries sector are covered by Regulations No. 1 and No. 5, 2000 (Retail and Wholesale Markets), and Regulation No. 13, 2000 (Fishing Enterprises in the Province of North Sulawesi). It would appear that the provincial government's policies relating to the fisheries sector are in conflict with those of the *kabupaten* governments. The *kabupaten* and *kota* governments will also take similar measures, and demand the power and authority that has actually become their right be relinquished. For example, this will include their control over seaports and public fish auctioning facilities within their region.

2. The content of Local Regulation No. 5, 2000 is quite interesting and should receive closer attention. Presently, the provincial government interprets retail and wholesale markets to mean areas owned, constructed and controlled by North Sulawesi's provincial government specifically for the purpose of conducting fish auctions or wholesale business. Levies are fixed at 5% of each transaction and are paid by both the buyers and the fishermen, the former paying 3%, and the latter 2%. This regulation also stipulates how the funds collected from these levies will be allocated: that is, 3% to the local government, 1% for market operational

costs, and the final 1% for the auction costs. The local governments' share of the revenue is then divided between the provincial government (80%) and the *kabupaten* and *kota* governments (20%). However it must be remembered that the *kabupaten* and *kota* governments have authority over these areas and have also targeted them for the collection of revenue. This means that they have already devised certain local regulations similar to the provincial government's regulations, and will continue to do so. Consequently, if no agreement is reached between the provincial and *kabupaten* governments in the near future, there is a strong possibility that in every fish auction facility throughout North Sulawesi two quite similar sets of regulations will be in force.

Policies on levies tend to ignore democratic principles and give the impression that there is an element of compulsion.

In general, local governments formulate draft legislation without significant consultation with those who are to be the subject of the tariffs. Even when this occurs, it is only for the sake of formality. One community representative who was present during the formulation process was only present to be given an explanation of the legislation. The local government had no intention of embracing and listening to the opinions of the community. According to one *bupati*, business people must make a contribution to the region, because the region needs a significant amount of capital to implement autonomy.

Furthermore, when draft legislation is being discussed at the legislative branch of local government, those who are to be subject to the levies have not been given the chance to make any amendments or voice their ideas. Assembly members have tended to agree with all the concepts filed by the executive, because it is very much in their interests to increase local revenue.

Levies in the forestry and mining sectors are based on short-term profit making policies and are a potential threat to the preservation of natural resources.

The regions have yet to formulate and implement a policy on forest and mining management that includes sustainable resource development, because human resources remain low. For the time being, local government is still pre-occupied with ways in which to obtain local revenue from these two sectors. However, in the long term this has the potential to threaten the preservation of resources.

## **2. Regional Autonomy which has Negative Implications on the Business Climate**

In general, policies created by the *kabupaten*, *kota* and provincial governments still focus on methods to procure local revenue, and are yet to pay serious attention to regulations and interventions affecting the distribution system or market commodities in the regions. There is still a push to make policies effective as regulations. Evidence of this comes from the decree issued by the Governor of North Sulawesi, which regulates pharmaceutical enterprises, as analyzed in Chapter II.

The protectionist and interventionist nature of the decrees issued often appear to be the result of pressure from local entrepreneurs who want their privileged positions in the market place be protected. The local governments usually respond to these pressures hoping to receive benefits from the expanding businesses that they have protected by such decrees.

During the era of autonomy, it is possible for the local governments to pass regulations to fulfill the demands of business interests in the region. Entrepreneurs originating from the

region, known as ‘sons of the region’ (*putra daerah*) have become a threat to various other groups, as they are regarded as an element that can lead to discriminative and biased local government policies. There is a strong possibility that a policy favoring *putra daerah* could be created in the future.

The following cases represent a few of those from North Sulawesi recorded by the SMERU team, regarding proposals and demands of farmers and local entrepreneurs to local government for special treatment and protection.

(1) Gapensi in Kabupaten Bolmong complained because their members are often unsuccessful in obtaining central government projects in the regions. These projects are always carried out by entrepreneurs from outside the region and without the involvement of local entrepreneurs. As a result, Gapensi has proposed to the local government that they should produce a special policy, to assist Gapensi members. The intended policy constitutes a regulation giving local entrepreneurs priority in carrying out all central and regional government projects in the area.

(2) Usaha Mina, a tuna cold storage and export company has urged the local government in Kabupaten Minahasa to limit the amount (arrange a type of negative list) of cold storage companies intending to start out in the industry. They are of the opinion that the area already exceeds its capacity. It is feared that if the number of cold storage companies were to increase, pre-existing companies would be slowly pushed to one side.

(3) For the last few months, the price of copra and coconuts has continued to fall, driving coconut farmers in North Sulawesi grouped under Apeksu to file 10 demands to the Provincial government (see Box 1, Chapter II). One of these demands was for the local government to form a team to control and determine the price of coconuts and copra in North Sulawesi so that prices will increase and then be maintained at a more satisfactory level. The local government accommodated this demand when the Governor of North Sulawesi issued Decree No. 27, 2001 on the 22<sup>nd</sup>, March 2001. The essence of some of their other demands included their desire for some sort of protection, hoping that the North Sulawesi community would stop consuming palm oil. They also demanded that the buying and selling of copra in North Sulawesi should be carried out through an auction coordinated by Apeksu.

(4) One trader has made an effort to dominate the inter-island livestock trade from Gorontalo by taking charge of the seaport. He achieved this by strategically positioning his boats at the port for weeks on end before the loading had began. As a result of this, other traders’ boats that were waiting to transport livestock experienced delays, and in the end were forced to cancel their programs. Reportedly, this livestock trader is a prominent figure in the Kabupaten Gorontalo government, and escaped any reprimand.

## V. CONCLUSION

Both the implementation of regional autonomy and a policy of decentralization in North Sulawesi have tended to blur the relationship between the various levels of government. When making decisions, the particular local government no longer has to make an effort to consult higher levels of government or their neighboring governments. Similarly, the higher levels of government tend not to make an effort to consult or take into consideration the interests of the government below them. As a result, several of the decisions ratified by local government, including some in the economic sector, appear to have neglected either regional or national interests. In general, the sense of national awareness of a unitary state has not been reflected in the implementation processes of government administration in the regions.

Presently, local government officials' activities, both at the provincial level as well as the *kabupaten* and *kota* levels, are primarily focused on various ways to increase local revenue. The total number of levies that are already effective or will shortly become effective in the region has tended to increase, thus raising the possibility that the situation could revert to the way things were before Law No.18, 1997 on Regional Taxes and Levies was put into effect. There has been considerable competition between the provinces and the *kabupaten* and *kota* governments in regard to several of the goods that are now the subject of levies, as they have a high potential for raising large amounts of revenue. If this trend were to continue, a high cost economy would be difficult to avoid.

Local business interests have played a large role in influencing local government thinking in regard to the creation of policies to regulate the market. Local entrepreneurs are not prepared to compete for contracts, as they feel they have special rights within the region leading to their demands that they (*putra/pengusaha daerah*) should be accorded priority and protection.

Local governments have also thought hard about ways to attract investors in the North Sulawesi area. However, it would seem that these endeavors are often in opposition to the attempts to increase local revenue, and the demands to regulate the market will certainly curb investment interest in North Sulawesi. All of this is in direct opposition to the plan recently agreed upon by the central government, for Indonesia to open itself up to free trade amongst Southeast Asian nations beginning in 2002.

## APPENDIX

**Table of Draft Regulation in Kabupaten Gorontalo, 2001**

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
1.	Oil and Natural Gas Business Licenses	<p>Permits to establish local depots:</p> <p>Capacity of up to 100,000 liter Rp150,000</p> <p>Capacity of 100,001 – 250,000 liter Rp250,000</p> <p>Capacity &gt;250,000 liter Rp350,000</p> <p>Permits to establish petrol stations:</p> <p>Capacity of up to 50,000 liter Rp150,000</p> <p>Capacity of 50,001 – 100,000ltr Rp250,000</p> <p>Capacity &gt;100,000ltr Rp350,000</p> <p>Permits to distribute fuel:</p> <p>Capacity of up to 5,000 liter Rp50,000</p> <p>Capacity of 5,001 – 10,000ltr Rp100,000</p> <p>Capacity &gt;10,000 liter Rp150,000</p> <p>Permits to collect and distribute recycled lubricants:</p> <p>Capacity of up to 1,000 liter Rp100,000</p> <p>Capacity of 1,001-5,000 liter Rp200,000</p> <p>Capacity &gt;5,000 liter Rp300,000</p> <p>Recommendations on locations to establish refineries: Rp300,000</p> <p>Permits to open a representative office oil and gas businesses Rp500,000</p> <p>License to build and use an explosives warehouse: Rp1 million</p> <p>Recommendation the use of Forest Areas:</p> <p>Expanse of up to 10 ha Rp300,000</p> <p>Expanse of 11 ha - 50 ha Rp600,000</p> <p>Expanse &gt; 50 ha Rp900,000</p> <p>Approval for the use areas designated for mining and contract work: Rp500,000</p> <p>Approval for an official certificate of registration: Rp350,000</p>	New	Local Treasury Office
2.	Permits to use underground water supplies	<p>a. Permits to explore underground water supplies: Rp100,000 per ha</p> <p>b. Permits to drill a bore: Rp150,000 per bore</p> <p>c. Permits to collect spring water in a dam: Rp100,000 per bore</p> <p>d. Permits for the extraction of underground water supplies: Rp200,000 per bore</p> <p>e. Permits for the removal of surface water supplies: Rp100,000</p> <p>f. Business boring permit:</p> <p>Category K2 Rp100,000</p> <p>Category K1 Rp200,000</p> <p>Category B Rp350,000</p> <p>Category A Rp500,000</p> <p>g. Bore drilling license Rp60,000</p>	Amended	Local Treasury Office

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
3.	Electrical Energy Permits	<p>Business Permits to provide electricity for private use:</p> <p>1. Primary use Rp500,000</p> <p>2. Reserve use Rp400,000</p> <p>3. Emergency use Rp250,000</p> <p>4. Temporary use Rp100,000</p> <p>Business Permits to provide electricity for public use:</p> <p>1. Primary use Rp2,000,000</p> <p>2. Reserve use Rp1,500,000</p> <p>3. Emergency use Rp1,000,000</p> <p>4. Temporary use Rp500,000</p>	New	Local Treasury Office
4.	Permits to own tools and machines used in the forestry sector	<p>License to own tools and machines for: road construction, skidding and yarding, handling and yarding, heavy sawmill equipment, rattan processing equipment. Levies on these permits are as follows:</p> <p>- Equipment under four years old incurs a levy of 5% of its sales price.</p> <p>- Equipment four to seven years old incurs a levy of 4% of its transaction value.</p> <p>- Equipment over seven years old incurs a levy of 3% of its transaction value.</p>	New	Local Treasury Office
5.	Public Cemetery Key	<p>Levies on burial plots Rp20,000</p> <p>Charge for the maintenance of burial plots Rp12,000 per year</p>	New	Local Treasury Office
6.	Fishing Enterprise Permits	<p>Levies on Fishing Enterprise Permits:</p> <p>1. Management of fishery resources:</p> <p>Capacity of up to 10 tons Rp50,000</p> <p>Capacity of 11 – 50 tons Rp75,000</p> <p>Capacity of 51 – 100 tons Rp100,000</p> <p>Capacity &gt;100 tons Rp150,000</p> <p>2. Fish cultivation:</p> <p>Salt water fish cultivation Rp50,000 per ha</p> <p>Fresh water fish cultivation Rp25,000 per ha</p> <p>Estuarine fish cultivation Rp50,000 per ha</p> <p>3. Fish Catches:</p> <p>Long line Rp27,000 per GT</p> <p>Shrimp seine Rp100,000 per GT</p> <p>Fish seine Rp98,000 per GT</p> <p>Purse seine for small fish in the Pelagic regions Rp30,000 per GT</p> <p>Purse seine for large fish in the Pelagic regions Rp35,000 per GT</p> <p>Nets catching fish by their gills Rp16,500 per GT</p> <p>Squid Jigging Rp17,500 per GT</p> <p>Rattan fish traps Rp31,500 per GT</p> <p>Basic 'prawai' rods Rp16,000 per GT</p> <p>Basic bag dragnet Rp10,000 per GT</p> <p>Recycled metal materials for cultivating crustaceans Rp27,500.</p> <p>The levies on fish catch permits and fishing boat licenses is charged at 2.5% of the standard</p>		Local Office of Fisheries

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		sales price of the fish. Levies for the issue of fish transport permit Rp25,000 per dispatch.		
7.	Levies f on the Supervision of Plantations, Food Crops and Horticultural Commodities	<p>A. Plantation commodities:</p> <p>1. Coconuts</p> <p>Coconuts for consumption Rp2 per coconut</p> <p>Coconut seedlings Rp3 per seedling</p> <p>2. Cocoa Dried seeds Rp5 per kg</p> <p>Cocoa seeds Rp2 per seed</p> <p>3. Candle nuts</p> <p>Unprocessed seeds Rp2 per kg</p> <p>Shelled seeds Rp5 per kg</p> <p>Seeds Rp10 per kg</p> <p>4. Coffee Dried</p> <p>Beans Rp5 per kg</p> <p>Seeds Rp10 per kg</p> <p>5. Cloves</p> <p>Dried seeds Rp5 per kg</p> <p>Fresh seeds Rp2 per kg</p> <p>Seedlings Rp10 per kg</p> <p>6. Cashews</p> <p>Dried seeds Rp3 per kg</p> <p>Shelled seeds Rp5 per kg</p> <p>Seedlings Rp5 per kg</p> <p>7. Ginger Rp2 per kg</p> <p>8. Other plantation commodities Rp3 per kg</p> <p>9. Plantation by-products:</p> <p>Coconut juice Rp2 per kg</p> <p>Coconut fiber Rp2 per kg</p> <p>B. Food Crops</p> <p>1. Rice Rp10 per kg</p> <p>2. Corn Rp8 per kg</p> <p>3. Soy beans Rp7,5 per kg</p> <p>4. Peanuts Rp7,5 per kg</p> <p>5. Mung beans Rp7,5 /per kg</p> <p>6. Others Rp7,5 per kg</p> <p>7. Rice and bran mix Rp2 per kg</p> <p>C. Horticultural Commodities</p> <p>1. Chili Rp10 per kg</p> <p>2. Tomatoes Rp10 per kg</p> <p>3. Red onions Rp10 per kg</p> <p>4. Vegetables Rp5 per kg</p> <p>5. Fruit Rp15 per kg</p> <p>6. Decorative plants Rp100 per kg</p> <p>7. Others Rp5 per kg</p> <p>D. Permit for the transportation of these export and import commodities Rp10,000 per dispatch</p>	New	Local Office of Plantations
8.	Testing and inspection of Food crops and Horticultural Seedlings Levies	<p>Rice seeds Rp125 per kg</p> <p>Corn seeds Rp100 per kg</p> <p>Soy bean seeds Rp100 per kg</p> <p>Mung bean seeds Rp75 per kg</p> <p>Peanut seeds Rp75 per kg</p>	New	Local Office for Industry, Trade and Capital Investment

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
	Seedlings Levies	Other seeds Rp75 per kg Fruit seedlings Rp100 per tree Decorative plant seedlings Rp50 per sapling		
9.	Testing and Calibration of Measuring Instruments, Measuring Containers, Scales and their Attachments Levies	<p>A. Linear Measures:</p> <p>1. Up to 1 meter:</p> <p>Calibration Rp5,000</p> <p>Re-calibration Rp4,000</p> <p>2. 1-10 meters:</p> <p>Calibration Rp6,000</p> <p>Re-calibration Rp5,000</p> <p>3. &gt;10 meters:</p> <p>Calibration Rp12,000</p> <p>Re-calibration Rp10,000</p> <p>B. Measuring Containers (for liquids and solids)</p> <p>1. Up to 5 liter:</p> <p>Calibration Rp3,000</p> <p>Re-calibration Rp2,500</p> <p>2. &gt;5 liter:</p> <p>Calibration Rp5,000</p> <p>Re-calibration Rp4,000</p> <p>C. Scale weights (for medium-sized scales)</p> <p>1. Up to 10 kg:</p> <p>Calibration Rp2,000</p> <p>Re-calibration Rp1,500</p> <p>2. &gt;10 kg:</p> <p>Calibration Rp3,000</p> <p>Re-calibration Rp2,500</p> <p>D. Scale Weights (for light scales)</p> <p>1. Up to 1 kg:</p> <p>Calibration Rp5,500</p> <p>Re-calibration Rp5,000</p> <p>2. &gt;1 kg:</p> <p>Calibration Rp7,000</p> <p>Re-calibration Rp6,000</p> <p>E. Medium-sized Scales</p> <p>1. Up to 25 kg:</p> <p>Calibration</p> <p>Re-calibration Rp25,000</p> <p>2. 26 – 100 kg:</p> <p>Calibration Rp15,000</p> <p>Re-calibration Rp27,500</p> <p>3. 100 – 250 kg:</p> <p>Calibration Rp20,000</p> <p>Re-calibration Rp30,000</p> <p>4. 250 – 1,000 kg:</p> <p>Calibration Rp25,000</p> <p>Re-calibration Rp35,000</p> <p>5. &gt; 1,000 kg:</p> <p>Calibration Rp30,000</p> <p>Re-calibration Rp100,000</p> <p>F. Light Weight Scales</p> <p>Calibration Rp75,000</p> <p>Re-calibration Rp40,000</p>	New, transferred from the provincial authority	Local Office for Industry, Trade and Capital Investment



No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		G. Fuel Meters: Rp35,000 1. Work meters: Calibration Rp40,000 per instrument Re-calibration Rp30,000 per instrument 2. Primary meters: Calibration Rp40,000 per instrument Re-calibration Rp30,000 per instrument H. Fuel Pump Measures: 1. Unmixed fuel Rp50,000 per instrument 2. Mixed fuel Rp3,000 per instrument I. Fixed Measurement Tanks: 1.Upright and Horizontal Cylinders: First 1000 kilo liter: Rp1,000 per kilo liter 1000–10,000 kilo liter: Rp500 per kilo liter >10,000 kilo liter: Rp300 per kilo liter 2. Round Measurement Tanks: As above in I.1, adding 50% J. Movable Measurement Tanks: 1.Petrol tanker measure Rp5,000 per kilo liter 2.Barge Tank Measure Rp2,500 per kilo liter K. Measuring receptacles: 1. Capacity of up to 50 liters: Rp7,500 per instrument. 2. Capacity of between 51-200 liters: Rp10,000per instrument. 3. Capacity of between 201-500 liters: Rp15,000 per instrument. 4. Capacity of between 501-1,000 liters: Rp25,000 per instrument. 5. Capacity >1.000 liters: Rp50,000 per instrument. L. Compound Weights Rp5,000 per instrument. M. Electronic scales Rp10,000 per instrument.		
10.	Industry, Trade and Capital Investment Permits	A. Industrial Enterprises: 1.Investments of up to Rp10 million: Rp25,000 2.Investments of between Rp10–25 million: Rp50,000 3.Investments of between Rp26–50 million: Rp75,000 4.Investments of between Rp51-75 million: Rp100,000 5.Investments of between Rp76-100 million: Rp150,000 6.Investments of between Rp101-125 million: Rp175,000 7.Investments of between Rp126-	New	Local Office for Industry, Trade and Capital Investment

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		<p>150 million:</p> <p>8. Investments of between Rp151-200 million: Rp225,000</p> <p>B. Industrial Enterprise Permits:</p> <p>1. Investments of between Rp200-400 million: Rp250,000</p> <p>2. Investments of between Rp401-600 million: Rp300,000</p> <p>3. Investments of between Rp601-800 million: Rp350,000</p> <p>4. Investments of between Rp801-1000 million: Rp400,000</p> <p>5. Investments &gt;Rp1,000 million: Rp500,000</p> <p>C. Permits to Expand Industrial Enterprises: Extensions of over 30% of its existing capacity incur a tariff of 50% of the commencement tariff paid.</p> <p>D. Trade Enterprise Licenses</p> <p>1. Investments of up to Rp10 million: Rp25,000</p> <p>2. Investments of between Rp11-25 million: Rp50,000</p> <p>3. Investments of between Rp26-50 million: Rp75,000</p> <p>4. Investments of between Rp51-100 million: Rp100,000</p> <p>5. Investments of between Rp101-150 million: Rp150,000</p> <p>6. Investments of between Rp151-200 million: Rp250,000</p> <p>7. Investments of between Rp201-500 million: Rp300,000</p> <p>8. Investments &gt;Rp500 million: Rp500,000</p> <p>E. Proof of Business Registration:</p> <p>1. Companies Rp250,000</p> <p>2. Limited Partnerships Rp150,000</p> <p>3. Firms Rp100,000</p> <p>4. Corporations Rp75,000</p> <p>5. Individuals Rp50,000</p> <p>6. Corporations owned by the Regional Government Rp100,000</p> <p>7. Other Corporations Rp150,000</p> <p>8. Foreign Investment Rp400,000</p> <p>F. Proof of Warehouse Registration: Warehouses &gt;36m<sup>2</sup> incur a tariff of Rp2,000 m<sup>2</sup></p> <p>G. Import Identification Code Certificate. The issuing of this certificate incurs a levy of Rp250,000 per page.</p> <p>H. Origin of Goods Certificate:</p>		

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		<p>The Origin of Goods Certificate for exporters is subject to Rp50,000 per certificate.</p> <p>I. Domestic Investment: Rp500,000</p> <p>1. Capital of up to Rp1 billion: Rp750,000</p> <p>2. Capital of between Rp1.1-2 billion: Rp1 million</p> <p>3. Capital of between Rp2.1-5 billion: Rp1.5 million</p> <p>4. Capital &gt;Rp2 billion: Rp500,000</p> <p>J. Foreign Investment: Rp500,000</p> <p>1.Capital up to \$500,000: Rp750,000</p> <p>2.Capital of between \$500,001-1 million: Rp1 million</p> <p>3.Capital of between \$1.1-2 million: Rp1.5 million</p> <p>4.Capital &gt;\$2 million:</p>		
11.	Levies on Automobile Inspections	<p>1.Buses Rp40,000 per unit</p> <p>2.Public transport and taxis unit Rp40,000 per unit</p> <p>3.Geeds Transportation trucks Rp45,000 per unit</p> <p>4.Specialty cars Rp40,000 per unit</p> <p>5.Trailers Rp30,000 per unit</p> <p>6.Side cars Rp30,000 per unit</p> <p>7.Rented motor bikes Rp15,000 per unit</p> <p>8.New vehicle registration Rp30,000 per unit</p> <p>9. Registration book renewal Rp7,500 per unit</p> <p>10.Replacement of lost registration books Rp5,000 per unit</p> <p>11.Passenger limit permit Rp10,000 per unit</p> <p>12.Modifications Rp25,000 per unit</p>	New, transferred from provincial authority	Local Transport and Communications Office
12.	Business Permits in the Land Transportation Sector	<p>A. Permits to use roads for purposes other than traffic, including:</p> <p>1.Small enterprise: Rp5,000 per hour</p> <p>2.Public interests : Rp100,000</p> <p>3.Social interests : Rp15,000</p> <p>4.Personal Interests: Rp50,000</p> <p>B. Automobile service station permits:</p> <p>1. Car service station Rp250,000</p> <p>2. Motor bike service station Rp150,000</p> <p>3. Specialty service stations for motorized vehicles (e.g. motorized <i>becaks</i>) Rp50,000</p> <p>C. Permits to establishment of a driving school Rp250,000</p>	Amended	Local Transport and Communications Office
13.	Co-operative Permits	<p>A. Levies on Permits:</p> <p>Primary co-operatives Rp100,000</p> <p>Secondary co-operatives Rp200,000</p> <p>B. Levies on co-operative facilities: 2.5% of yearly dividends</p>	New	Local Office of Co-operatives
14.	Levies on the Viability of Savings and Loans	<p>A. Savings and Loans Co-operatives:</p> <p>1. Viable Rp200,000</p> <p>2. Reasonably viable Rp150,000</p>	New	Local Office of Co-operatives

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
	Co-operatives and Units	3. Less than viable Rp100,000 4. Not viable Rp50,000 B. Savings and Loans Units: 1. Viable Rp100,000 2. Reasonably viable Rp75,000 3. Less than viable Rp50,000 4. Not viable Rp25,000		
15.	Levies on Fish Auction Facilities and Fish Unloading Docks	A charge of 5% of fish sales prices	Amended	Local Office of Fisheries
16.	Permits from the Department of Manpower	A. Permits for the appointment of staff, expansion, and productivity of labor 1. Appointment of foreign staff \$100 a person per year 2. Establishment of a special Employment Agency Rp85,000 3. Establishment of an Indonesian employment agency (PJTKI) Rp275,000 4. Establishment of a training institute Rp45,000 5. Authorization of Indonesian working permits (KITKI) Rp15,000 per person 6. Authorization of foreigners working permits (RPTKA) \$125 a person per day 7. Foreign working permit extensions (IKTA) \$75 a person per year B. Authorization for the employment of staff originating outside of the region: 1. 1-25 persons 2. 26-100 persons Rp150,000 3. >100 persons Rp200,000 Supervision and Protection of Staff Rp300,000 C. Permits to vary working hours and break periods: 1. 1-10 persons 2. 11-25 persons Rp35,000 3. 26-50 persons Rp50,000 4. >50 persons Rp75,000 D. Compulsory manpower permits Rp100,000 E. Work permits for women working night shifts: Rp35,000 1. 1-10 persons 2. 11-25 persons 3. 26-50 persons Rp35,000 4. >50 persons Rp50,000 F. Lawful Employment Supervision Certificate Rp75,000 Rp100,000 Rp50,000	New, under the province's authority	Local Office of Manpower

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
17.	Occupational Health and Safety Levies	<p>Structure of levies:</p> <p>A. Levies on all workplaces: levies on newly established workplaces range from between Rp50,000 to Rp300,000 each consequent levies between Rp37,500 and Rp225,000</p> <p>B. Machines, instruments, installations and dangerous materials:</p> <p>1. Steam, water and oil boilers: commencement levies range between Rp100,000 and Rp500,000 per boiler and then fall to between Rp75,000 and 375,000 during the following periods.</p> <p>2. Electrical boilers: Establishment levy: Rp100,000 – Rp400,000</p> <p>Following periods: Rp75,000 – Rp300,000</p> <p>3. Steam receptacles, water heaters and free standing economizers: Establishment levy: Rp60,000- Rp400,000 Consequent periods: Rp45,000-Rp300,000</p> <p>4. Free standing dehumidifiers: Establishment levy: Rp100,000-400,000 Consequent periods: Rp75,000-Rp300,000</p> <p>5. Steel bottles: Levies : Rp20,000-Rp300,000</p> <p>6. Transport containers Rp50,000</p> <p>7. Stationary containers Rp50,000</p> <p>8. Cold storage containers Rp100,000</p> <p>9. Piping installation Rp50,000</p> <p>10. Kitchens and furnaces Rp45,000-Rp200,000</p> <p>11. Carbide gas generators Rp15,000-Rp80,000</p> <p>12. Electric generators Rp45,000-Rp400,000</p> <p>13. Locomotives Rp60,000-Rp80,000</p> <p>14. Industrial rail networks Rp45,000-Rp150,000</p> <p>15. Conveyors Rp30,000-Rp80,000</p> <p>16. Escalators Rp75,000-Rp100,000</p> <p>17. Electrical machines and apparatus Rp15,000-Rp120,000</p> <p>18. Hydraulic-powered machines and apparatus Rp15.000-Rp80,000</p> <p>19. Scaffolding Rp37,500-Rp120,000</p> <p>20. Cranes Rp30,000-Rp220,000</p> <p>21. Gondolas Rp40,000</p> <p>22. Forklifts Rp30,000-Rp160,000</p> <p>23. Skylifts Rp37,500-Rp50,000</p> <p>24. Float tanks Rp60.000-Rp150.000</p> <p>25. Electricity installation Rp75,000-Rp500,000</p> <p>26. Automatic fire alarms</p>	New	Local Office of Manpower

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		27.Hydrants Rp10,000 28.Springklers Rp8,000 29.Air pressure fans Rp8,000 30. Light weight fire extinguishers Rp20,000 Rp50,000 31.Installation of radio t transmitters Rp60,000 32.Installation of control towers Rp60,000 33.Establishment of medical services Rp60,000 34.Electronic reception antennas Rp60,000 35.Lifts Rp60,000 36.Installation of waste disposal units Rp60,000 37.Radio-active devices Rp60,000 38.Hazordous chemicals Rp60,000 39.Dump trucks Rp7,500-Rp40,000 Rp30,000		
18.	Levies on the Issue of ID cards and Civil registration Document	Structure of levies: 1. Printing costs: Family ID card Rp1,500 Indonesian citizenship ID card Rp3,000 Foreign citizenship ID card Rp7,500 2.Issue and registration of birth certificates and excerpts: First and second children (Indonesian citizens) Rp6,000 First and second children (Foreign citizens) Rp22,500 Third and following children (Indonesian citizens) Rp12,000 Third and following children (Foreign citizens) Rp45,000 3.Issue and registration of marriage certificates and excerpts: Marriage of Indonesian citizens at a registry Rp21,000 Marriage of Indonesian citizens outside registry Rp41,500 Marriage of foreign citizens at a registry Rp60,000 Marriage of foreign citizens outside a registry Rp90,000 4.Issue of second marriage certificates: Indonesian citizens Rp12,000 Foreign citizens Rp45,000 5.Adoption authorization: Indonesian citizens statement of affirmation Rp37,500 Foreign citizens statement of affirmation Rp75,000 Authorization for the adoption of an Indonesian child Rp37,500	amended	Local Treasury Office

No.	Type of Tax/Levy	Amount	Status	Office/Implementing Department
		Authorization for the adoption of a foreign child Rp75,000 Issuing of an excerpt for the adoption of a second child Rp45,000 Registration of adopted child Rp37,500 6.Registration and issue of divorce certificates: Divorce certificate for Indonesian citizens Rp37,000 Divorce certificates for foreign citizens Rp75,000 7.Death certificates: Indonesian citizens Rp10,000 Foreign citizens Rp20,000 8.Registration of name changes Rp15,000 9.Issue of official statements: Civil registration for Indonesian citizens Rp3,750 Civil registration for Indonesian citizens Rp7,500		

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